MICROFINANCE UMBRELLA PROGRAMS STUDY

AN ANALYSIS OF USAID EXPERIENCE USING UMBRELLA PROGRAMS TO SUPPORT MICROFINANCE MARKETS AND INSTITUTIONS

USAID Microenterprise Development Office

July 2006

MICROFINANCE UMBRELLA PROGRAMS STUDY

AN ANALYSIS OF USAID EXPERIENCE USING UMBRELLA PROGRAMS TO SUPPORT MICROFINANCE

USAID Microenterprise Development Office

July 2006

CONTENTS

ACRONYMS

ACDI/VOCA	Agriculture Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency
ADS	Automated directives system
AFCAP	Microfinance Capacity Building Program in Africa
AFR	Africa Region
AGILE	Accelerating Growth, Investment, and Liberalization with Equity (USAID)
AHAP	Azerbaijan Humanitarian Assistance Program (USAID)
AMAP	Accelerated Microenterprise Advancement Project (IQC)
AMFIU	Association of Microfinance Institutions in Uganda
ANE	Asia and the Near East Region
APEP	Agricultural Productivity Enhancement Project (USAID)
ARMDEV	Associated Resources for Management and Development, Inc.
ARMM	Autonomous Region in Muslim Mindanao
ASEC	Automated Systems & Equipment Corp.
ASM	Azeri Star Microfinance
ASTI	Association of Scientific & Technical Intelligentsia, Tajikistan
ATM	Automated teller machine
AZIPS	Azerbaijan Inter-bank Payment and Settlement System
AZM	Azerbaijan manat
B&P	Bid and proposal
BAP	Bankers Association of the Philippines
BDS	Business development services
BOU	Bank of Uganda
BSP	Bangko Sentral ng Pilipinas
BTC	Baku-Tbilisi-Ceyhan oil pipeline
CA	Cooperative agreement
CADER	Center for Arbitration and Dispute Resolution
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity Management
CAMFA	Central Asian Microfinance Alliance (USAID)
CAR	Central Asian Republics

CCN	Cooperating country national
CDA	Cooperative Development Authority (Philippines)
CDIE	Center for Development Information and Evaluation
CERUDEB	Centenary Rural Development Bank
CFO	Chief financial officer
CFR	Code of Federal Regulations
CGAP	Consultative Group to Assist the Poor (World Bank)
CHF	Community, habitat, and finance
CICA	Competition in Contracting Act
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CLIN	Contract line item number
CMF	Center for Microfinance
CMFL	Commercial Microfinance Ltd.
COP	Chief of party
CPIP	Credit Policy Improvement Project (USAID)
CRB	Credit reference bureau
CTO	Cognizant technical officer
CU	Credit union
CUES	Credit Union Empowerment and Strengthening (Philippines)
CUTE	Credit Union Trainers for Empowerment
DAI	Development Alternatives, Inc.
DCA	Development Credit Authority
DFCU	Development Finance Corporation, Uganda
DFID	Department for International Development (U.K.)
DH	Direct hire
E & E	Europe and Eurasia Region
EAGLE	Earnings, Assets, Growth, Liquidity, Efficiency (MABS rating)
EBRD	European Bank for Reconstruction and Development
EC	Delegation of the European Commission in Uganda
EDP	Enterprise Development Project
EE	Europe and Eurasia Bureau of USAID
EF	Enterprise and Finance Office (USAID/CAR)
EGAT	Economic Growth and Trade Bureau (USAID)

EMERGE	Efficient Reform and Government Enhancement
EMG	Emerging Markets Group
ESOP	Employee stock ownership plan
EU	European Union
EUR/ACE	Office of the Coordinator of U.S. Assistance to Europe and Eurasia
FAA	Foreign Assistance Act
FAR	Federal Acquisition Regulations
FASA	Federal Acquisition Streamlining Act
FDI	Foreign direct investment
FFH	Freedom from Hunger
FINCA	Foundation for International Community Assistance
FOCCUS	Finance Organizations Achieving Certified Credit Union Standards (CUES credit union rating)
FOMIR	Fortalecimiento de las Microfinanzas Rurales
FP	For profit
FSA	Financial Service Association (MFI model)
FSA	Freedom Support Act
FSDU	Financial Sector Deepening Project, Uganda (DFID)
FSN	Foreign service national
FSO	Foreign service officer
G & A	General and administrative
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross domestic product
GEM	Growth with Equity in Mindanao
GEM-2	Growth with Equity in Mindanao-2
GOAz	Government of Azerbaijan
GOU	Government of Uganda
GRP	Government of the Republic of the Philippines
GSA	General Services Administration
GTZ	German Agency for Technical Assistance
HUBZone	Historically underutilized business zone
IADB	Inter-American Development Bank
IAS	International Accounting Standards
IBA	International Bank of Azerbaijan

ICAR	Interagency Country Assistance Review
ICT	Internet and communication technology
IDP	Internally displaced person
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFDC	International Fertilizer Distribution Center
IGPD	Institutional Grant for Policy Development
IMCI	International Medical Corps
IMF	International Monetary Fund
IQC	Indefinite quantity contract
IRC	International Rescue Committee
ISSEC	MABS RB2000 roll-out firm
KfW	German Bank for Reconstruction and Development
KLF	Kazakhstan Loan Fund
KSBP	Kazakhstan Small Business Program
LAC	Latin America and the Caribbean Region
LGP	Loan Guarantee Program
LSGA	Limited scope grant agreement
LWA	Leader with Associates
M/OAA	Management Bureau, Office of Acquisition and Assistance
MAARD	Modified acquisition and assistance request document
MABS	Microenterprise Access to Banking Services (Philippines)
MABSTeR	MABS technical resource person
MCC	Microfinance Competence Center
MCI	Mercy Corps International
MCN	Model cooperative network
MCUB	Model credit union building method
MD	Microenterprise Development office
MDI	Microfinance deposit-taking institution
MEDCo	Mindanao Economic Development Council
MF	Microfinance
MFF	Microfinance forum
MFI	Microfinance institution
MIS	Management information system

MOBIS	Management, organizational, and business improvement services
MOP	Microfinance outreach plan
MSE	Micro and small enterprise
MSME	Micro, small, and medium enterprise
MSP	MABS service provider
MTCS	Medium Term Competitiveness Strategy
NAR	Naxcivan Autonomous Republic
NBA	National Bank of Azerbaijan
NBFI	Non-bank financial institution
NBRK	National Bank of the Republic of Kazakhstan
NCC	National Credit Council
NEP	New entry professional
NFP	Not-for-profit
NGO	Nongovernmental organization
NICRA	Negotiated indirect cost rate agreement
NIS	Newly Independent States (former Soviet Union)
NMS	New management system
OEDG	Office of Economic Development and Governance
OMB	Office of Management and Budget
OSCE	Organization for Security and Cooperation in Europe
PAR	Portfolio at risk
PARR	Policy and regulatory reform
PB	Participating bank
PBC	Performance-based contract
PCFC	People's Credit and Finance Corporation
PDA	Personal digital assistant
PDIC	Philippine Deposit Insurance Corporation
PEAP	Poverty Eradication Action Plan (GOU)
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity, Signs of Growth
Phoenix	USAID accounting system
PhP	Philippine peso
PMA	Plan for the Modernization of Agriculture (Uganda)
PMT	Performance monitoring tool
PRESTO	Private Enterprise Support Training and Organization

PRIME/W	Productive Resource Investments for Managing the Environment/Western Region (USAID)
PSC	Personal services contractor
PSDG	Private Sector Donor Group
PVO	Private voluntary organization
RAISE	Rural and Agricultural Incomes in a Sustainable Environment (IQC)
RB	Rural bank
RBAP	Rural Bankers Association of the Philippines
RCO	Regional contracting officer
RFA	Request for applications
RFP	Request for proposals
RIF	Reduction in force
Rural SPEED	Rural Savings Promotion & Enhancement of Enterprise Development (Uganda)
SACCO	Savings and Credit Cooperative Organization
SAS	Shorebank Advisory Services
SC	Save the Children
SCOPE	Strengthening Competitiveness of Private Enterprise (USAID)
SCWE	Savings and Credit with Education
SEGIR	Supporting Economic Growth and Institutional Reform (IQC)
SIF	Special Initiatives Fund under SPEED
SME	Small and medium enterprise
SO	Strategic objective
SOA	Shore Overseas Azerbaijan
SOE	State-owned enterprise
SOW	Scope of work
SPEED I/II	Support for Private Enterprise Expansion and Development (USAID)
SUFFICE	Support to Feasible Financial Institutions and Capacity-Building Efforts (E.U.)
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunication
TA	Technical assistance
TCN	Third country national
TIERG	Targeted Interventions in Economic Reform and Governance
UBB	Uzbek Business Bank
UEPB	Uganda Export Promotion Board
UMU	Uganda Microfinance Union
USAID	United States Agency for International Development

USAID/W	United States Agency for International Development/Washington
USDA	United States Department of Agriculture
USDH	United States direct hire
USE	Uganda Stock Exchange
USG	United States Government
Ush	Uganda shilling
USPSC	United States personal services contractor
UTB	Uganda Tourism Board
U-Trust	Uganda Women's Finance Trust
VAT	Value-added tax
WB	World Bank
WOCCU	World Council of Credit Unions, Inc.
WTO	World Trade Organization

EXECUTIVE SUMMARY

Purpose of the Study

This report sheds light on the advantages and disadvantages of microfinance umbrella programs, addressing concerns about the contracting process and identifying lessons that can guide Agency staff and inform the broader community of microfinance practitioners. To do this, the study attempts to sort out myth from fact while answering several key questions:

- What constitutes an umbrella program?
- How much USAID support for microfinance is awarded through umbrella programs?
- Which types of organizations implement microfinance umbrella programs most frequently?
- If the use of umbrellas is increasing, what are the driving forces behind this trend?
- What are the advantages and disadvantages of these programs?

Study Methodology and Organization

The complexity of this undertaking dictated that this study be conducted in stages, and that a broad range of findings, analyses, and stakeholders be consulted. USAID's Microenterprise Development Office (MD) convened an Advisory Group of not-for-profit (NFP) and for-profit (FP) microenterprise implementing organizations to elicit feedback on the nature and use of umbrella programs and develop hypotheses regarding the advantages and disadvantages of these programs. USAID/MD then commissioned the Emerging Markets Group, Ltd., to study these issues, which included populating a database of umbrella programs with quantifiable data and undertaking field-based analysis of microfinance umbrella programs in Azerbaijan, Central Asia, the Philippines, and Uganda.

The country case studies selected represent a range of variables, including region, market maturity, implementing organizations, and umbrella program duration. The field research is captured in the case studies in Annex E. Results and outputs from these programs are examined in detail for each case study. After soliciting analysis from the USAID Office of Acquisition and Assistance (OAA), reactions from the Consultative Group to Assist the Poor (CGAP), and independent consultants, USAID/MD then conducted further research, including adding USAID/El Salvador as a case study. A first draft was developed and then sent to the Advisory Group in advance of a USAID presentation on the study's findings. Comments and concerns voiced during this meeting were integrated into the final version. Hence, this study represents a synthesis of findings, evidence, and observations.[1]

Key Questions Addressed in the Study

What is a microfinance umbrella program? Umbrella programs deliver several different types of activities, bundled together under one comprehensive program. While these activities include

---

[1] Some concern was expressed regarding USAID's ability to remain totally objective in evaluating its own programs. It should be noted that new legislation requires USAID to undertake an analysis of a number of questions covered by the umbrella study, including cost effectiveness. Moreover, this undertaking was informed and facilitated by a deep insider understanding of USAID procurement policy and practice, as well as USAID programmatic trends in microfinance. Hence, by conducting the study USAID was able to integrate real-life programmatic and policy issues relevant to the scope of this study. USAID's use of the Advisory Group, made up of not-for-profits, for-profits, and other donors, helped to ensure that the research was balanced.

microfinance, they may also include other components such as business development services or assistance in creating a more enabling policy environment. While umbrella programs are typically managed by for-profit firms, not-for-profit organizations sometimes play the lead role. Often a significant share of the overall dollar value of an umbrella activity is designated for subgrants and subcontracts to other international and local service providers, including private voluntary organization (PVO) microfinance networks contracted to provide services to their affiliates and other microfinance institutions.

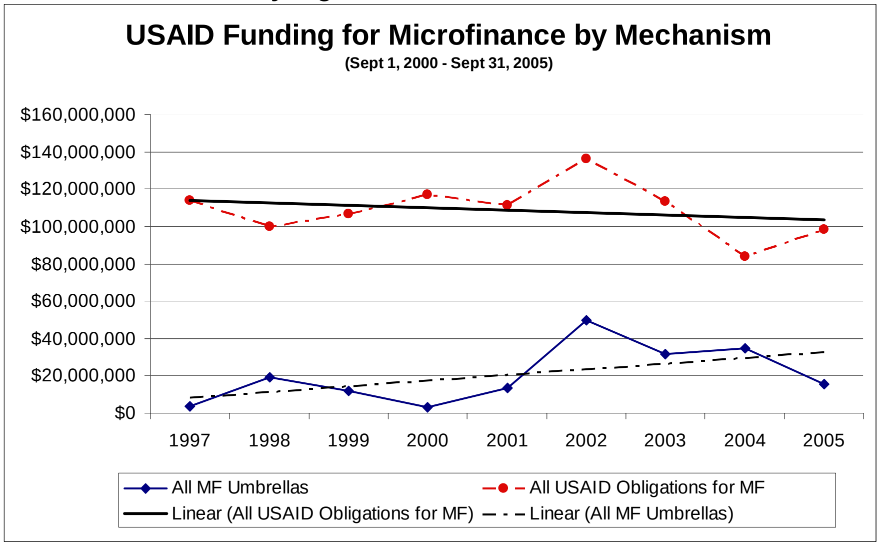
There are two potential structures for a microfinance umbrella program:

- *Broader umbrella programs with a microfinance component*. These programs comprise activities spanning a variety of sectors, of which microfinance is just one. An example is the Azerbaijan Humanitarian Assistance Program (AHAP), which focused on four areas: conflict prevention, civil society, health and population, and supporting microfinance initiatives to accelerate the rate of economic development in regions with numerous conflict-displaced refugees.

- *Microfinance-only umbrellas*. In contrast, these umbrellas are more focused, working toward the development of the microfinance sector. Microfinance-only umbrellas operate at any level – or at all levels – within a financial system.[2] An example of this type of umbrella is the Central Asia Microfinance Association (CAMFA), a microfinance-only umbrella that supports retail microfinance institutions but also helps develop associations, build supporting services, and address policy issues.

How much USAID support for microfinance flows through umbrellas? Executive Summary Figure 1 illustrates USAID obligations for microfinance between 1997 and 2005, comparing funding for microfinance through umbrella programs to overall USAID microfinance obligations. The graph illustrates that umbrellas represent less than 30 percent of new USAID obligations for microfinance, indicating that most USAID support for microfinance is still programmed through single-purpose projects. By the same token, the overall use of umbrella programs to support microfinance has risen from 11 percent of USAID support for microfinance between 1997 and 1999, to 28 percent between 2002 and 2005.

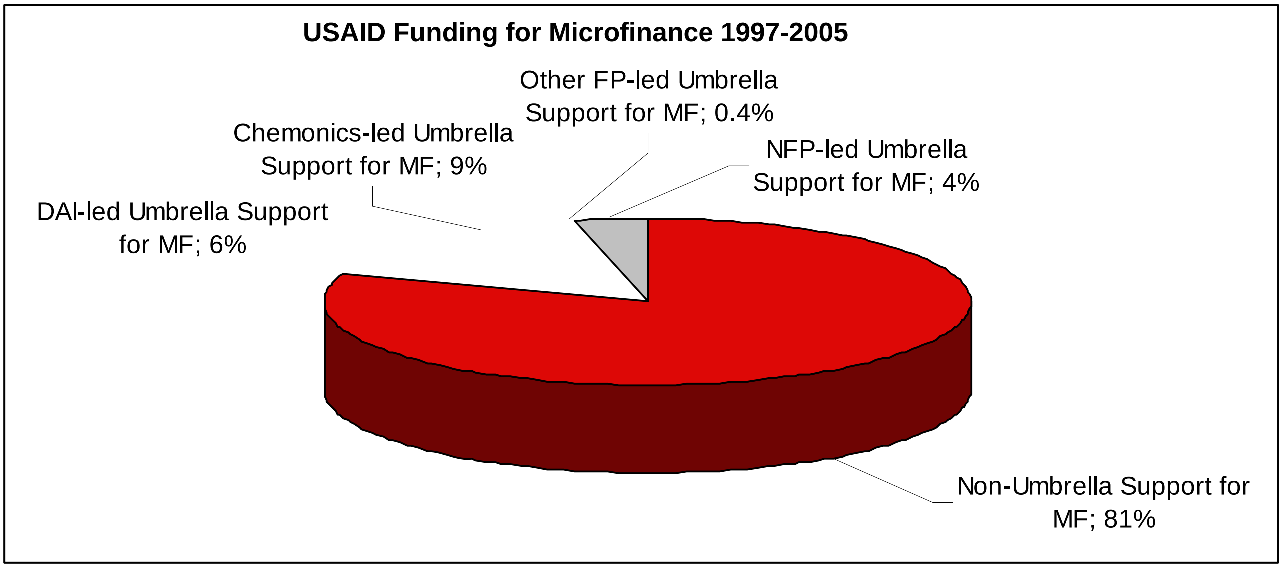
Executive Summary Figure 1



[2] The 2004 CGAP Pink Book – Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance – emphasizes the integration of microfinance into mainstream financial systems. This vision recognizes that microfinance markets require strengthening at the micro, meso, and macro levels: micro-level activities that support retail microfinance institutions; meso-level activities that focus on microfinance support services and enabling infrastructure (i.e., rating agencies, associations, etc.); and macro-level activities that target policy, regulatory, or legal issues.

The graph below shows a recent reduction in the share of microfinance funding programmed through umbrellas, falling from a high of $49 million – representing 37 percent of total USAID funding for microfinance in 2002 – to $15 million in 2005, just 16 percent of the average support for that year.

Executive Summary Figure 2



Which types of organizations implement microfinance umbrella programs most frequently? Overall, FP firms are the lead implementers of the majority of umbrella programs in terms of both dollars received and number of programs administered. Of the $187 million that has been obligated through umbrellas since 1997, FP firms were awarded approximately $154 million directly from USAID, while not-for-profit entities were directly awarded the remaining $33 million, or 22 percent of the amount. Nearly 47 percent of total funds are sub-obligated in the form of subcontracts and subgrants.[3]

If the use of umbrellas is increasing, what are the driving forces behind this trend? USAID is under significant pressure to disburse greater amounts of funding with fewer specialized staff as well as to reduce the number of management units. First, umbrellas enable Missions to outsource management of the procurement process, significantly reducing the administrative burden on Mission staff. Second, as donors seek to mainstream microfinance, they face industry-level constraints and opportunities that cannot be addressed comprehensively with projects focused on the development of a single institution. Finally, umbrella programs enable USAID to support the development of microfinance markets at all financial system levels and among multiple providers.

Analysis of Hypothesized Umbrella Advantages and Disadvantages

A range of leading NFP and FP implementers identified potential advantages and disadvantages of umbrella programs, which the study analyzed, as summarized below:

[3] Funding data was reported by the prime USAID implementing partners and cross checked with program documentation (such as budgets and scopes of work) as well as with the Microenterprise Results Reporting database.

- *Umbrella programs provide financial and technical support to many service providers*. All case studies revealed that umbrella programs provide financial and technical support to many service providers. The Central Asia Microfinance Alliance (CAMFA), for example., provided direct support to 17 service providers through grants, training, and technical assistance, provided larger grants to two FINCA start ups, and facilitated establishment of a second-tier finance facility making loans to smaller MFIs.

- *Umbrellas permit integration of policy reform activities with other activities*. Among the 31 microfinance umbrella programs identified for this study, 13 included microfinance policy reform components. More often than direct support for policy reforms, umbrella programs provide assistance to MFI associations with the potential to influence policy. Most Mission officers believed the optimal procurement vehicle for policy activities should be a contract, as policy work is typically sensitive and contracts provide more involvement.

- *Umbrella programs encourage synergies and knowledge sharing between components and among diverse stakeholders*. While USAID Missions can, and do, coordinate the exchange of information among single-purpose implementers, coordination is generally better facilitated at the implementation level by umbrella programs. Evidence from the five case countries in this study indicates that well-managed umbrellas can, and do, encourage knowledge sharing and coordination, particularly at the local market level; however, there are occasionally lapses in coordination across program components. At the global level, USAID single-purpose activities that are run by international microfinance networks benefit from global intra-network knowledge sharing.

- *In the case of contracts, umbrella programs increase accountability through the ability to contractually tie funding to results*. The perception is that contracts provide a greater ability to "tie funds to results." But to be precise, the ability to tie payments to results under contracts depends on the type of contract used. The U.S. Government's preferred type of contract is fixed-price, under which the contractor is paid a fixed amount for specified deliverables or outputs. However, a fixed-price contract requires a definitive statement of work, which is seldom possible in USAID due to external factors that can affect performance – i.e., unforeseeable changes in the legal or political environment. The typical types of contracts used for microfinance umbrella programs are cost-reimbursement (CR) and time-and-materials (T&M) contracts. Assigning accountability for results to an implementing partner means that such results must be within the partner's "manageable interests" – i.e., the partner must have an independent ability to ensure it can achieve the desired result. So, in terms of achieving results that are beyond the output level, such as appropriate policies for a microfinance market, USAID's CR and T&M contracts and its cooperative agreements are similar in terms of ensuring results, as both are "best effort" arrangements.Both contracts and grants/cooperative agreements may be used for the achievement of results. Neither contracts nor grants/cooperative agreements offer any greater or lesser degree of accountability for the achievement of results.

- *Umbrella programs reduce program costs and Mission management burden by reducing the number of procurement actions and management units*. While there is only limited evidence that supports the assertion that umbrella programs are less costly, umbrella programs outsource the management of the procurement process for subawards and technical assistance, significantly reducing the administrative burden on Mission staff. Umbrella managers typically will prepare and issue the RFA/RFP instrument; organize and convene the review committee; ensure USAID procurement rules and regulations are applied; complete any additional due diligence needed; conduct pre-award audits as necessary; negotiate the final subaward/s; and manage the use of funds. These are all items that USAID must handle internally in the case of bilateral awards.

- *Umbrella programs fail to invest sufficiently in market leaders or provide well-tailored and comprehensive assistance*. There was scant evidence that umbrellas fail to invest in market leaders. More often, USAID elects to support market leaders capable of serving the largest number of enterprises or clients. And, with limited exceptions, the type of assistance is usually mutually agreed upon by the MFI and the umbrella manager. In most instances, assistance was comprehensive and well-tailored in programs examined in the field.

- *Umbrella programs rely on the skills and credibility of the Chief of Party (COP) to ensure effective coordination with government and other donors*. Interviews with dozens of USAID officers and implementers indicate that a strong COP is one of the key factors for any successful program. This assertion was borne out in the El Salvador and the Philippines cases, where underperforming COPs were replaced. In both cases, new COPs were able to put program performance back on track. Some USAID officers noted that the contract was a preferred vehicle for an umbrella, as USAID has greater authority to replace key personnel.

- *Umbrella managers tilt their technical assistance toward their own organization's expertise and take advantage of financial incentives inherent in using expatriate short- and long-term assistance*. Since virtually all grants/cooperative agreements and USAID contract mechanisms are cost-reimbursable, no organization stands to gain financially by using high-priced expatriates rather than lower-priced local hires, as organizations are reimbursed for actual costs. The real issue is whether umbrella managers use the most cost-effective personnel. By and large the study found few examples where expatriate personnel had been used inappropriately.

- *Umbrellas reduce involvement by Mission staff, including decisions concerning fund allocation*. Interviews with dozens of USAID Mission staff involved in umbrella programming indicate that they are engaged in key decision making and continue to stay abreast of major program developments. USAID retains and exercises the authority to approve subgrants, ensuring that USAID continues its close involvement in the decision-making process on fund allocation.

Other Findings

Both for-profit and not-for-profit organizations can manage umbrella programs well. The legal character of the entity managing the umbrella program, whether for-profit or not-for-profit, does not appear to predict or influence its responsiveness to program objectives or market demands. Three not-for-profits and three for-profits led the programs reviewed in the five country studies in this study. All were judged as having achieved results that either met or exceeded performance objectives. Additionally, an analysis of 31 umbrella programs led by for-profits and not-for-profits revealed little to no difference in the credentials of personnel, level of customer service, and quality of program management.

No significant conclusions were possible regarding whether FPs or NFPs were more cost effective. While every effort was made to determine whether FPs or NFPs are more cost effective, the number and subjectivity of variables were too great to substantiate or refute assertions regarding cost effectiveness. Cost effectiveness implies not only low cost but also quality of performance, a subjective factor that is extraordinarily difficult to compare rigorously across different programs, markets, institutions, and countries. Nevertheless, three proxies for measuring cost effectiveness were explored:

- *Applying indirect costs against a mock scope of work*. An organization's administrative costs and cost effectiveness may sometimes be seen as a function of indirect costs and, in the case of FPs, its fee. Our research revealed that indirect and administrative costs are not uniformily tracked or measured. Indirect cost structures of eight FP implementers of microfinance programs and eight NFPs were applied against a mock microfinance umbrella task order with the same direct program costs. The exercise revealed that NFPs were slightly less costly than FPs in most categories. However, the conclusions we are able to draw from this analysis are limited, as indirect costs are calculated differently between NFP and FPs as well as among not-for-profits. So, isolated from other variables, comparing indirect cost rates is an invalid method of drawing cost-effectiveness conclusions between NFPs and FPs.

- *Comparing the ratio of cost per borrower among the universe of umbrella profiled*. The broad multisectoral approach used by umbrella programs does not lend itself to a cost-per-client analysis, as umbrellas rarely limit their approach to building retail financial institutions that directly serve clients. For example, it is meaningless to compare the cost per client of an intervention to develop a supportive legal and regulatory environment to the cost per client of a micro-level intervention that helps expand the institutional outreach of individual MFIs. Each umbrella program is designed uniquely and implemented with different partners and under fluid market and institutional dynamics. All these factors affect the cost-per-borrower ratio, regardless of whether the implementer is a FP or NFP.
- *Assessing the compensation and qualifications of long-term personnel*. By examining the salaries of all long-term personnel serving on umbrella programs, we attempted to draw some conclusions regarding the quality and cost of services of funding spent on expatriate personnel vis-à-vis their credentials. NFP personnel tended to be on the lower end of the compensation spectrum, while salaries provided by FPs were, on average, higher than NFPs. There were no significant differences in the qualifications of long-term personnel between FPs and NFPs. However, as there are few NFP-led umbrellas, the sample size of NFP personnel was too small to be valid.

Perceived conflicts of interest can be obviated. Two types of conflicts of interest were identified in not-for-profit-led umbrellas. In Azerbaijan, some subgrantees believed that the NFP umbrella holder's access to subgrantee business information gave it an unfair advantage in bidding on other USAID activities. In the Central Asian Republics, some subgrantees complained that it was inappropriate for an organization to run an umbrella program while having a stake in a particular microfinance organization. To avoid the perception of conflict, USAID Missions should structure relationships between umbrella holders and subgrantees to mitigate the likelihood of conflicts of interest, whether actual or perceived. Maintaining active USAID involvement in the subgranting process and barring umbrella managers from directly operating microfinance institutions may help obviate potential conflicts.

Establishing meaningful partnerships with international microfinance networks. Some USAID-funded umbrellas have worked directly with international microfinance networks to strengthen relationships with local organizations. Incorporated as subcontractors under the umbrellas, the international networks were used to provide technical assistance to their affiliates and the industry. This collaboration was effective at ensuring technical assistance continuity and was appreciated by the MFI partners as well as the networks.

The playing field between FPs and NFPs is not level. There is a perception on the part of both FPs and NFPs that there is a lack of fair opportunity to bid on RFAs/RFPs for microfinance umbrella programs. NFPs believe they are not afforded bidding opportunities because umbrellas are often – though not always – issued under contracts. In contrast FPs tend not to bid on cooperative agreements because profit-taking is not permitted. Although there are several common myths about bidding barriers (see Executive Summary Box 1), there are indeed real disparities, along with opportunities for better policy to create a more level playing field.

Niche players are not well positioned to bid on umbrella programs. Microfinance niche players – typically international microfinance networks and small businesses – voice concern that it is difficult for them to participate in microfinance umbrella programs. Clearly, many niche players choose not to bid on umbrella programs because the breadth and scope of work is beyond their core competencies. In addition, it can be hard to build a track record to successfully compete for such work. Further, many not-for-profit niche players may prefer to focus on building local affiliates rather than the broader industry. Finally, many not-for-profits may lack the legal authority permitting them to pursue such a broad range of activities, as managing a multifaceted umbrella program could compromise their favorable tax status.

Executive Summary Box 1. Barriers to Entry: Commonly Accepted Myths

Myth: NFPs cannot bid on contracts and FPs cannot bid on cooperative agreements. There are no prohibitions on awarding assistance instruments to FPs, or contracts to NFPs.

Myth: NFP cost structures do not allocate sufficient revenue to prepare for competitive bids. The fact is that "bid and proposal" (B&P) costs are allowable parts of overhead for both FPs and NFPs.

Myth: NFP accounting systems are inadequate to manage a contract. Per OMB Circular Guidance and the Federal Acquisition Regulations (FAR), an accounting system that qualifies for a cooperative agreement would be adequate for a contract.

Myth: contractors must provide detailed monthly billing information to USAID. USAID no longer requires contractors under cost-reimbursement or time-and-materials contracts to provide detailed information with each voucher.

Small businesses and not-for-profit niche players have had difficulty in participating in umbrella programs because of the nature of USAID's procurement systems. Many USAID umbrella programs are issued for bid under large, menu-driven procurement vehicles called Indefinite Quantity Contracts (IQCs),[4] which may have ceilings of several billions of dollars. While some niche players are included in winning proposal consortia as subcontractors to consulting firms within these IQCs, in many instances this role does not result in a meaningful level of work. USAID has no "privity of contract" with any entity other than the "prime" of an IQC, and, as a general matter, will not intervene in disputes between the prime and a member of its consortium.

During the last year, many microfinance niche players competed for a large microenterprise development Leaders with Associates (LWA) procurement vehicle, which incorporates many of the speed and convenience features of an IQC. Although this mechanism was only recently launched, it holds significant potential to help level the playing field between for-profits and not-for-profits. Some small businesses indicated that their participation in umbrella programs would be taken more seriously if USAID more rigorously implemented its small business regulations.

[4] Paralleling declining staff size and skills is the trend toward large, menu-driven procurement vehicles, including Indefinite Quantity Contracts (IQCs), Leader With Associates (LWAs), and GSA schedules, in lieu of full and open competition of contracts, grants, and CAs. While absolute numbers are not available from the Office of Procurement, USAID's internal working committee on human resource planning and business systems states that the great majority of procurement transactions occur through IQCs and LWAs, rather than stand-alone RFPs and RFAs.

Roadmap to Case Studies Highlighted in the USAID Microfinance Umbrella Report

Case Study	Reason Selected	Umbrella	Manager	Dates	Design	Focus
USAID/El Salvador	• Evolving market maturity • Long project duration • LAC political/cultural context • Mission size and funding	Fortalecimiento de las Microfinanzas Rurales (FOMIR)	DAI	1998-2003	MF-only	TA/training to multiple MFIs; linkages to capital; transformation assistance; access to information; installation of better MIS; credit bureau linkages
		FOMIR II	DAI	2003-2005	MF-only	Linkages with local consultants; enhanced industry information; development of MF association; MFI development
USAID/ Azerbaijan	• Immature microfinance market • Small Mission • Lengthy duration • Post conflict setting	Azerbaijan Humanitarian Assistance Program (AHAP)	Mercy Corps International	1998-2006	Umbrella with microfinance component	Help internally displaced persons and affected communities access health care and agricultural assistance; support long-term economic development; fund establishment of 3 MFIs
USAID/ Philippines	• More mature market • Large Mission • One umbrella led by FP, another by NFP • Asia regional diversity • Umbrella w/o subgrants	Microenterprise Access to Banking Services (MABS)	Chemonics International	1998-2007	MF-only	Provides TA/training to rural banks to profitably move down market
		Credit Union Empowerment and Strengthening Project (CUES)	WOCCU	1996-2006	MF-only	Focused primarily on institutional strengthening for individual cooperatives, and building model credit union network
USAID/ Central Asia Republics	• Less mature market • Large Mission • Multicountry umbrella • Umbrella led by FPs	Central Asia Microfinance Alliance (CAMFA)	ACDI/VOCA	2002-2006	MF-only	Offers broad range of assistance to MFIs to strengthen existing lending entities and create new ones in underserved areas of Central Asia
USAID/ Uganda	• More mature market • Medium-sized Mission • Long history with a succession of umbrellas • Africa regional diversity	Private Enterprise Support Training and Organizational Development (PRESTO)	Management Systems International & Price Waterhouse Coopers	1997-2001	MF-only	Strengthened Ugandan microfinance industry to build capacity of business associations; promoted policy and regulatory reforms to improve the enabling environment for private sector growth
		Support for Private Enterprise Expansion and Development (SPEED)	Chemonics International	2000-2004	Umbrella w/ microfinance component	Focused on needs of MSEs and increasing access to finance and business skills. (SPEED II is a short follow-on activity. SPEED I and II are generally referred to as SPEED in the study.)
		Rural Support for Private Enterprise Expansion and Development (SPEED)	Chemonics International	2004-2007	MF-only	Rural SPEED builds capacity of rural financial entities to provide agricultural/non-agricultural financial services – e.g., increasing savings mobilized in rural areas

I. INTRODUCTION AND BACKGROUND

Why the Study?

For many years USAID has provided direct support to international microfinance networks to start up or strengthen affiliates in their efforts to provide financial services to the world's poor. To continue expanding access to financial services, many USAID Missions now use umbrella microfinance programs to assist a range of financial system actors. Donors, the community of practitioners, and some in Congress have expressed concern that the use of umbrellas involved a greater reliance, at greater cost, on for-profit (FP) consulting firms.

To better understand the proper use of umbrella programs and gauge their effectiveness and efficiency, MD has undertaken this study on microfinance umbrellas, including an analysis of rationale, design features, and results. The study's scope of work (SOW), found in Annex A, describes its aim in the following terms

Box 1. What Are Microfinance Umbrella Programs?

Microfinance umbrella programs may provide assistance directly or via subcontracts and sub-recipients. Some umbrellas feature activities at different financial market levels, including work with retail MFIs, associations, and government stakeholders. Others are used to reduce management units, with Missions' consolidating activities into large programs with many discrete activities, sometimes only loosely related.

Umbrella advantages and disadvantages become clearer when compared to single-purpose programs, which continue to receive the bulk of USAID support for microfinance. Typically these are grants or cooperative agreements to an organization – often an international microfinance network – to support a single microfinance institution. Such programs are generally smaller than umbrellas and have fewer sub-obligations.

> "This study seeks to understand the advantages and disadvantages of umbrellas to provide better guidance to Missions on whether and when to use umbrellas, and how best to design, implement, and manage these programs."

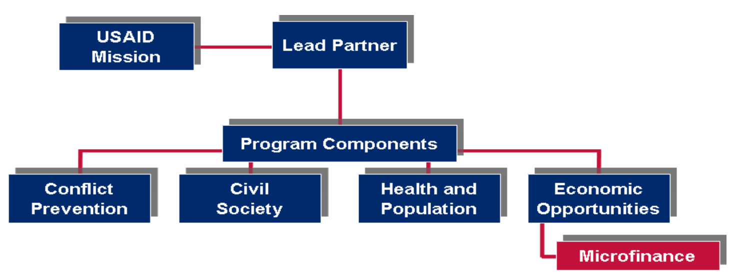
The study attempts to sort out umbrella program myths and facts by answering several key questions:

- What constitutes an umbrella program?
- How much USAID support for microfinance is awarded through umbrellas, and who receives it?
- Which firms and organizations implement microfinance umbrella programs most frequently?
- If the use of umbrellas is increasing, what are the driving forces behind this trend?
- What are the advantages and disadvantages of microfinance umbrella programs?

Definition of an Umbrella Program

It is important to first clarify what is meant by the term umbrella program. There are two potential structures:

Figure 1



Umbrella Programs with Microfinance Components

These are large programs with several activities, of which microfinance is just one component, as seen in Figure 1. An example is the Azerbaijan Humanitarian Assistance Program (AHAP), which focused on conflict prevention, civil society, health and population, and economic opportunities. Under its economic opportunities component, AHAP supported three microfinance institutions. A case study of the AHAP program is found in Annex E.

Microfinance-Only Umbrella Programs

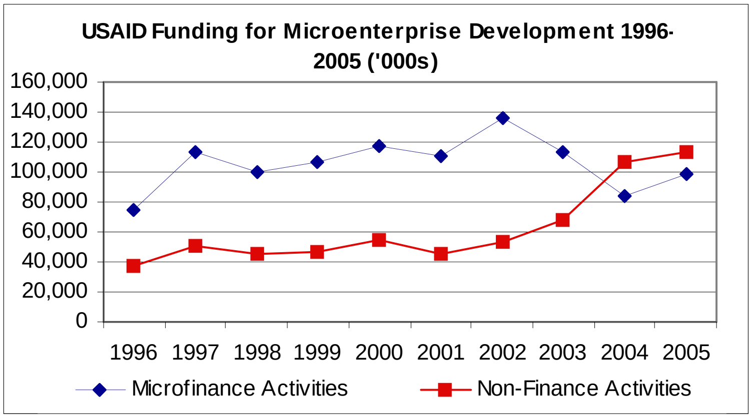
A more focused type of program is the microfinance-only umbrella. This type is more likely to work at multiple levels of the financial system and is solely dedicated to supporting the microfinance industry. An example is the Central Asia Microfinance Association (CAMFA), a microfinance-only umbrella that focuses primarily on supporting retail microfinance institutions but also helps develop associations and services supporting the industry. Annex E provides a case study of the CAMFA program.

USAID Support for Microfinance

How Much Support Does USAID Spend on Microfinance?

Between 1996 and 2005, USAID awarded $1.05 billion for microfinance, with an average annual obligation of about $105 million.[5] As illustrated in Figure 2, microfinance support rose from $74 million in 1996 to a high of $136 million in 2002, then declining to about $100 million in 2005. Over the same period, annual USAID obligations for microenterprise development, including microfinance as well as non-financial services, rose from $111 million to $212 million. As illustrated in Figure 2, USAID's support for non-financial microenterprise services increased during this period in relation to the Agency's support for financial services.

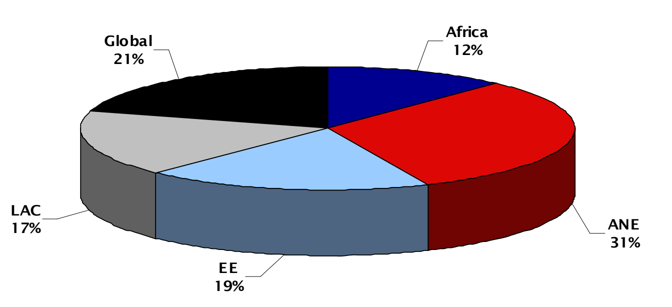
Figure 2



Where Is USAID Supporting Microfinance?

Figure 3 illustrates the regional breakdown of USAID microfinance funding between 1996 and 2005. During that period, Asia and the Near East (ANE) obligated 31 percent of USAID support for microfinance, making it the region most actively supporting microfinance. USAID/Washington was the second most active branch of the Agency in supporting microfinance, obligating 21 percent of USAID funds for

Figure 3 USAID Expenditures on Microfinance ('96-'05)



[5] Source: Microenterprise results reporting data. These totals include USAID funding for both direct credit activities and financial policy work related to microfinance. For more information on MRR data, visit www.mrreporting.org.

microfinance during that period. Europe and Eurasia (E&E) closely followed USAID/Washington, obligating 19 percent of USAID funds for microfinance between 1996 and 2005. Regionally, USAID support for microfinance through umbrellas mirrors overall microfinance funding, with ANE and E&E obligating more than other regions through umbrella mechanisms.

How Much Funding Is Awarded Through Microfinance Umbrella Programs and to Whom Is It Awarded? [6]

According to self-reported data from 31 microfinance umbrella awardees, or "primes," USAID has awarded $187 million in microfinance support under umbrella programs since 1997. Of this amount, for-profit firms were awarded approximately $154 million directly from USAID, while not-for profit (NFP) entities were directly awarded the remaining $33 million, or 22 percent. Additionally, although NFPs received only 22 percent of support for microfinance through umbrellas directly from USAID, there were substantial subgrants and/or sub-obligations under each umbrella program studied. NFPs likely receive a significant portion of this funding. Beginning in 2006, USAID will be able to track these sub-obligations.

Figure 4

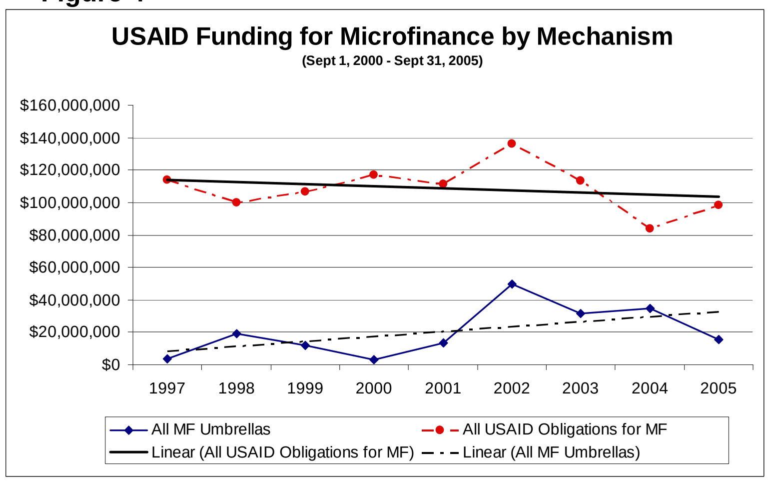
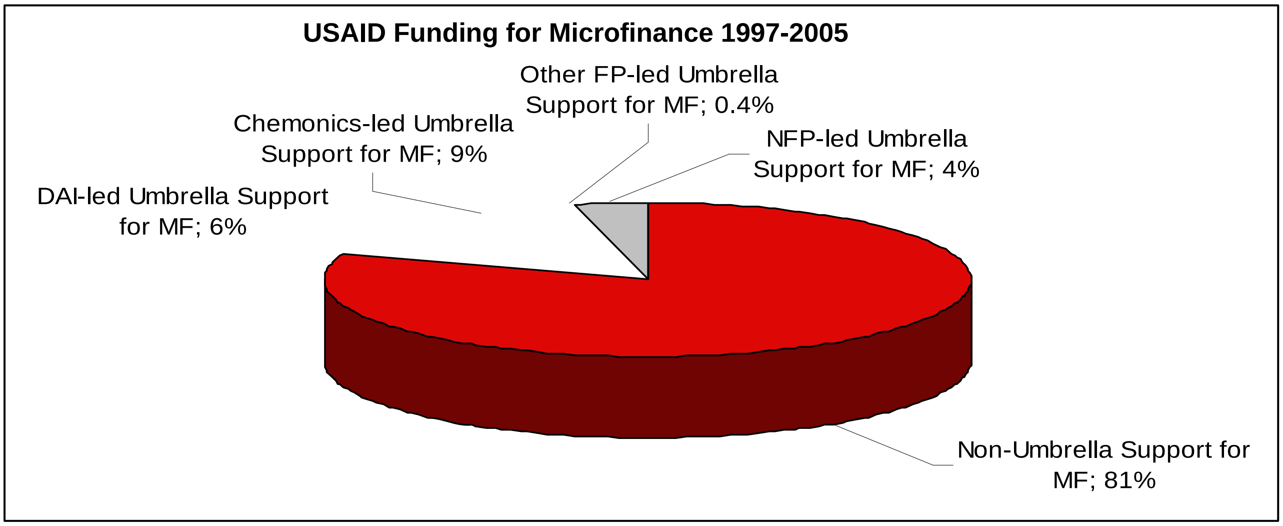


Figure 4 illustrates two interesting points regarding the percent of USAID microfinance support awarded through umbrellas and the frequency with which such programs are awarded. Between 1997 and 2005, USAID support for microfinance through umbrellas made up a small portion of the Agency's funding for microfinance. Over the same period, USAID's use of umbrellas to support microfinance has risen, albeit with substantial year-to-year fluctuation.

Between 1997 and 1999, 11 percent of microfinance funding flowed through umbrellas. By contrast, between 2002 and 2005, 28 percent of microfinance funding was funneled through this vehicle. Comparing this trend over a 10-year time horizon provides a more accurate picture of the use of umbrellas in supporting microfinance than a year-to-year funding perspective. Taking a shorter time horizon actually demonstrates a reduction in the use of microfinance umbrellas, which fell from a high of $49 million – representing 37 percent of total USAID funding for microfinance in 2002 – to $15 million in 2005, just 16 percent of microfinance support for that year.

[6] To complete this section of the report, a list of 31 programs meeting one of the two definitions of an umbrella program used in this report as well as the following criteria: (1) implemented by a U.S. partner; (2) implemented or awarded by September 30, 2005; and (3) having an average annual expenditure of least $750,000. Information on the programs was self-reported by the primary awardees and does not represent an exact breakdown of USAID microfinance umbrella funding trends. While every effort was made to obtain accurate data, they are estimates and should not be considered dollar-for-dollar expenditures. Expenditures beyond 2005 are estimates. In the course of this study, the data were analyzed both in the aggregate and disaggregated by umbrella type.

Figure 5



Which Organizations Receive the Most Support Through USAID Microfinance Umbrella Programs?

For-profit firms serve as the prime for 80 percent of the total worth of USAID microfinance umbrella programs. The majority of that funding was awarded to two firms: Development Alternatives, Inc., (DAI) and Chemonics International. In terms of percent of funds awarded to FPs, DAI received 42 percent and Chemonics 35 percent. NFPs served as leads on the remaining 20 percent, within which Mercy Corps and ACDI/VOCA were the leading awardees. As for the number of programs led by FPs, DAI led 13 programs and Chemonics 12. In contrast, Mercy Corps was the NFP awarded the greatest percent of funding with just one program; ACDI/VOCA led two umbrellas.

Examining the full picture of USAID support for microfinance, umbrella programs have received comparatively little funding vis-à-vis single-purpose, retail-level activities. As depicted in Figure 5, although microfinance umbrellas have not been evenly distributed between FPs and NFPs, more than 80 percent of USAID support for microfinance between 1997 and 2005 was distributed through non-umbrella mechanisms.

II. DRIVING FORCES BEHIND MICROFINANCE UMBRELLA PROGRAMS

The preceding section has established that USAID is indeed using umbrella programs more often to implement microfinance activities. This next logical question is: why? Through interviews with dozens of USAID officers and practitioners, and our analysis of five in-depth umbrella case studies, we suggest two reasons for the increasing popularity of these programs.

- *Reduction of USAID human and management capacity*. USAID Missions are under significant pressure to disburse greater amounts of funding with fewer qualified staff. Umbrellas reduce the number of management units and enable Missions to outsource the procurement process, thus reducing Mission administrative burden.

- *Microfinance markets need micro-, meso-, and macro-level support*. As microfinance markets mature and donors seek to mainstream microfinance, they face industry-level constraints and opportunities that cannot be addressed with single-purpose, retail-level programs. Umbrellas let USAID strengthen microfinance markets at all system levels and among multiple providers.

Reduction of USAID Human and Management Capacity

Since its inception, USAID has also undergone a complete transformation in how it delivers its foreign assistance. During the 1990s, USAID faced increasing Congressional requirements for accountability, the forced reduction of staff stemming from budget cuts, and a new foreign policy imperative to open many programs in Eastern Europe and the former Soviet Union. Additionally, the U.S. Government "reengineering" initiative radically changed the process of designing and implementing. Once an agency implementing large-scale programs, USAID now operates primarily through partners and with fewer financial and human resources.

USAID is currently experiencing a human capacity crisis characterized by staff reductions and a thin operating expense (OE) budget. The Agency's recent self-assessment is stark:

> "USAID's human capital gaps are more serious than those of most other U.S. Government agencies. Insufficient OE funds over time, staff reductions and lack of hiring, poor choices of technology investments in the 1990s, elimination of most training, and a painful reduction-in-force (RIF) have resulted in the human capital crises USAID now faces."[7]

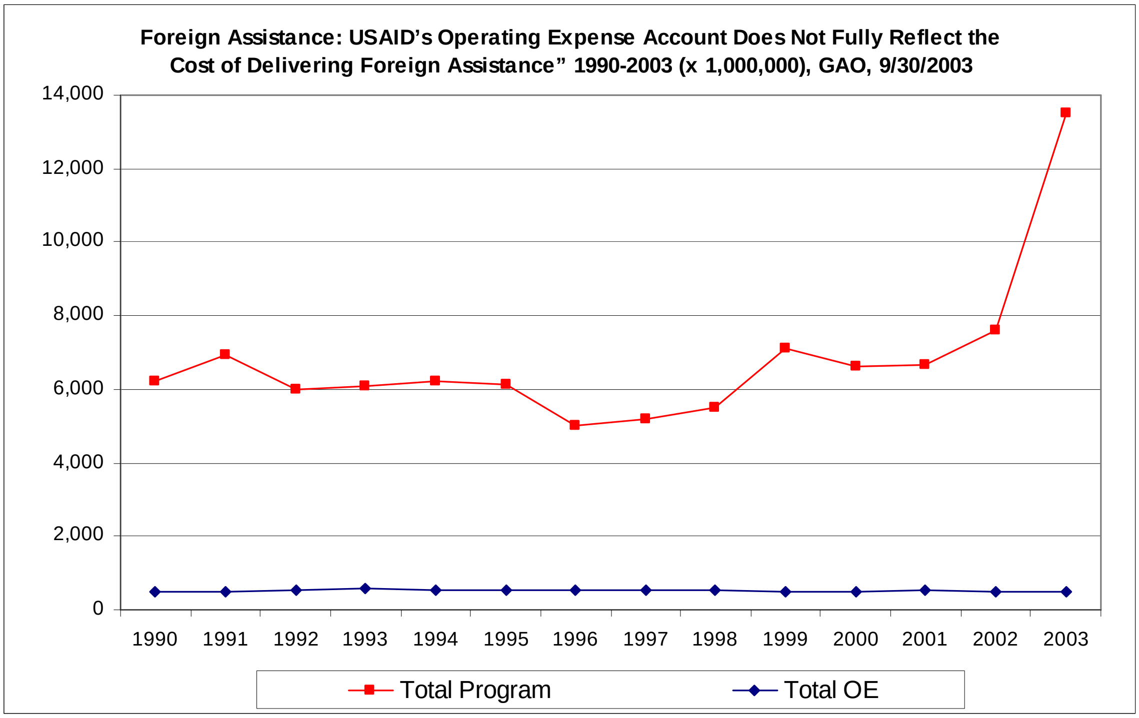
USAID funding dynamics and staffing implications. USAID has two types of funding: OE, which is used to fund the salaries and support the costs of direct-hire employees; and program funds, used to support USAID-funded development programs, including both single-purpose projects and umbrella programs. As can be seen in Figure 6, program funds have increased substantially as a percentage of OE over the last several years. Missions are now managed by nearly 35 percent fewer Foreign Service Officers than in 1992 and USAID's civil service has been reduced by 30 percent during the same period.

---

[7] USAID, Human Capital Strategic Plan, 2004-2008, "Building a New Generation," PD-ACA-455, August 2004, pp. 15-16.

To compensate for OE-funded workforce losses, USAID has been creative at using program funds to meet human capital needs. The Agency has acquired no fewer than 12 separate legal authorities to hire personnel and has access to an array of different kinds of “fellows” in addition to the authority to hire U.S. and foreign citizens under personal service contracts. Additionally, USAID is relying more heavily on Foreign Service Nationals to shoulder the Agency’s overseas work. As illustrated in Table 1, Foreign

Figure 6



Service Nationals now comprise over 60 percent of total USAID workforce. Nevertheless, only U.S. direct hire staff are capable of performing inherently governmental functions such as awarding contracts.

Concomitant to the human capital crisis and changes in the USAID business model, funding for microfinance development grew substantially during the 1990s. Nearly every Mission case study profiled for this study funded single-purpose, retail-level microfinance programs during this period. However, USAID had greater numbers of staff and OE funding to manage the burden associated with larger portfolios of retail-level, single-purpose projects, a point echoed among USAID officers. In CAR, for example, some officers stated that implementing numerous single-purpose activities “nickel and dimes” staff time. If we take CAMFA as an example, USAID/CAR would have to replace that single umbrella program with up to 12 discrete activities, constituting an overwhelming management burden. USAID/Philippines staff agreed that reduction of management burden is the most powerful rationale for umbrella programs.

Given the confluence of factors – scarce OE, sometimes significant and highly variable program funds, and downward pressure to reduce the administrative burden – the umbrella design offers a logical and pragmatic program design, not only for microfinance but for all sectors.

Microfinance Markets Need Micro-, Meso-, and Macro-Level Support

Table 1. USAID Total Workforce as of June 30, 2004[9] (excluding the Inspector General)	Number	Percent
U.S. Foreign Service	999	34.3%
U.S. Civil Service	988	33.8%
U.S. Personal Service Contractors	587	20.2%
Fellows, PASA, RSSA (other USG agencies)	342	11.7%
Subtotal U.S. workforce	**2,913**	**38.0%**
FSNs	4,842	62.0%
TOTAL	**7,755**	**100%**

Another key advantage of umbrella programs is their ability to support the development of microfinance markets at all levels and among multiple providers.[8] The 2004 CGAP Pink Book – Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance – underscores the importance of integration of microfinance into mainstream financial systems. By design, a single-purpose, retail-level program cannot be as effective in integrating microfinance into formal financial systems. To do so requires working with government authorities and across a spectrum of microfinance stakeholders.

CGAP guidelines group the relevant actors and interventions into three levels.

- *Micro-level* activities support retail microfinance institutions. In many cases, groups of microfinance institutions (MFIs) encounter similar institutional constraints. As noted, umbrella programs can work with multiple MFIs and sometimes multiple types of institutions.

- *Meso-level* activities focus on microfinance support services and the enabling infrastructure. Every industry requires supporting services for growth and stabilization. For microfinance, this includes technology service providers, credit bureaus, rating agencies, professional networks, and associations, as well as access to technical assistance and training. All five of the case studies in this report – and nearly all of the USAID umbrella programs – work at the meso level.

- *Macro-level* activities aim to strengthen the policy, regulatory, or legal framework for microfinance. In most cases, there is no real legal framework for NGO delivery of financial services, necessitating new legal structures that permit their engagement in financial intermediation while protecting borrowers. Similarly, umbrellas can play the dual role of navigating MFIs through government regulations, helping them to secure deposit-taking licenses, for example.

In working to strengthen the building blocks for the sector, umbrella programs generally aim to reduce dependence on donor funding and transition institutions towards private sources of capital.[10] Single-purpose projects can and do link institutions to commercial sources of capital. A single-purpose, retail-level program in Mongolia, for example, assisted Xac, a microfinance bank, in diversifying its capital structure with commercial debt and equity. However, umbrella programs have the potential to link groups of MFIs to private sources of funds. Further, umbrella programs also work with government regulators to strengthen the policy environment that enables MFIs to access private capital.[11]

---

[9] USAID, "Human Capital Strategic Plan, 2004-2008, Building a New Generation," PD-ACA-455, August 2004, p. 24, Figure 1.

[11] Through the FOMIR I umbrella in El Salvador, USAID supported the establishment of a capitalization fund to promote MFI access to debt from local banks. In Central Asia, CAMFA funded the creation of a second-tier lending institution, providing commercial loans to MFIs across the region. The USAID-funded Microenterprise Development Initiative (MEDI) in Yerevan,

Umbrella microfinance programs can incorporate assistance to multiple organization types into their institutional development activities. For example, downscaling commercial banks have the ability to vastly scale up the sector without creating extra costs for regulators or requiring external funding. The microfinance portfolios of these downscalers have grown 45 percent per annum for the last two years with no signs of slowing. Some umbrella programs provide assistance not just to NGO-MFIs but also to banks downscaling into microfinance markets.

Armenia, organized a Microfinance Investors Conference last October to help increase capital flow to microfinance markets in the Caucasus. Recent umbrellas from USAID Missions in Pakistan, Jordan, Romania, and Georgia have sought to link existing microfinance markets to commercial sources of capital.

III. UMBRELLA HYPOTHESES

During the preparation of this study's scope of work, the leading microfinance NFPs and FPs speculated as to the advantages and disadvantages of umbrella programs. These advantages and disadvantages were presented as hypotheses to be tested against the universe of USAID-funded microfinance umbrellas.

A database of 31 umbrella programs was populated with quantifiable data on umbrella funding and other trends. Five Missions – Central Asia, Azerbaijan, Philippines, El Salvador, and Uganda – were selected for in-depth case studies, which are presented in Annex E. The Missions selected represent a range of program variables, including region, market maturity, implementing organization, and program duration. Among the five Missions, eight microfinance umbrella programs were profiled (see Box 2).

Box 2. Case Studies Highlighted in the USAID Microfinance Umbrella Report

USAID/El Salvador: Fortalecimiento de las Microfinanzas Rurales (FOMIR) I & II. These umbrellas at first provided a broad array of assistance meso-level institutions as well as to 11 MFIs. FOMIR II scaled back assistance to 6 MFIs.

USAID/Azerbaijan: Azerbaijan Humanitarian Assistance Program (AHAP) focused on ensuring the access of IDPs and affected communities to health care and agricultural assistance; support for long-term economic development; and funding for the establishment of three MFIs.

USAID/Philippines:

- Microenterprise Access to Banking Services (MABS) provides TA/training to rural banks to move down market.
- Credit Union Empowerment and Strengthening Project (CUES) focuses on institutional strengthening for individual cooperatives and building model credit union network.

USAID/Central Asia Republics: Central Asia Microfinance Alliance (CAMFA) offers a broad range of assistance to existing MFIs and establishes new lending agents in underserved areas.

USAID/Uganda:

- Private Enterprise Support Training and Organizational Development (PRESTO) provided assistance to several MFIs, built capacity of business associations; and promoted policy and regulatory reforms for general private sector growth.
- Support for Private Enterprise Expansion and Development (SPEED) focused on transforming MFIs into deposit-taking institutions, as well as other non-microfinance activities. (SPEED II is a short follow-on activity.)
- Rural Support for Private Enterprise Expansion and Development (Rural SPEED). Rural SPEED builds capacity of rural financial entities to provide agricultural/non-agricultural financial services.

Hypothesis 1: Umbrella programs provide financial and technical support to many service providers, so as to promote overall industry-building goals, including increasing competition and improving/diversifying products and services.

All of the umbrellas studied for this report provide broad financial and technical support to many service providers. The Central Asia Microfinance Alliance (CAMFA) provided direct support to 17 service providers through grants, training, and technical assistance. It has also provided larger grants to two FINCA start ups in Uzbekistan and Tajikistan, a grant to the Kazakhstan Loan Fund for establishing new branches, and a grant to FINCA-Kyrgyzstan to support its commercial transformation.

Table 2. Financial Service Providers Supported Under Umbrellas Reviewed for the Study

	AHAP	CAMFA	FOMIR I	FOMIR II	PRESTO	SPEED	MABS	CUES
# of MFIs	3	17	11	6	25	8	82	48

While umbrellas generally do support a wide range of microfinance stakeholders, the larger question is whether this assistance results in a stronger microfinance industry, with more competition and greater diversity of products and services. Evidence suggests that it does. For example, in the Philippines, the microfinance umbrellas CUES and MABS contributed positively to the diversity of financial products available to consumers. Prior to the two programs, financial services to the poor were limited, consisting of only two loan products. As a result of umbrella program-supported technical assistance and training, rural banks and credit unions now offer a broader array of products and services, with credit unions now offering integrated financial education programs to rural women as well as access to new microfinance products. Rural banks have begun to offer new products, including term loans and savings accounts. MABS is also piloting a new text-a-payment for micro-loan repayments that lower transactions costs for borrowers and institutions.

The FOMIR case study concluded that the microfinance market in El Salvador experienced rapid growth, increased sustainability, enhanced competition, and deepened penetration of rural markets. FOMIR assistance helped MFIs mobilize deposits, strengthen transparency, and improve customer service. MFI partners increased rural points of service, expanded individual loan products, diversified consumer financial products, and initiated remittances services.

Hypothesis 2: Umbrella programs permit integration of policy reform activities with other activities.

Although umbrellas do permit the integration of policy work, this occurs less frequently than the integration of meso-level activities. Among the 31 microfinance umbrella programs, only 13 included microfinance policy reform components. Macro policy-level activities generally fell into two categories: first, building government capacity to supervise and regulate microfinance portfolios; and second, advising in the development of microfinance laws, policies, and regulations.

Table 3. Micro, Meso, Macro Components in Umbrellas

# of USAID Microfinance Umbrellas	Macro	Meso	Micro
31	13	22	29[12]

Both the CUES and MABS umbrellas in the Philippines helped build the government's ability to supervise microfinance portfolios. CUES worked formally and informally to improve the policy environment, becoming a technical resource for the government on credit union development. MABS has collaborated with the national credit bureau and works with the Central Bank of the Philippines, Bangko Sentral ng Pilipinas (BSP), and the National Credit Council (NCC) on policy and regulatory reform. In fact, the BSP regularly encourages new banks interested in microfinance to enroll in the MABS program.

Some umbrellas have a macro-level focus on transforming a few MFIs into licensed, deposit-taking financial intermediaries. In Uganda, USAID's Support for Private Enterprise Expansion and Development (SPEED) and SPEED II programs focused on transforming large, unregulated MFIs into prudentially regulated micro deposit-taking institutions (MDIs) legally permitted to mobilize and intermediate savings.

[12] Among the universe of USAID-funded umbrellas, two did not provide direct assistance to retail-level providers but rather focused on developing the macro and meso levels.

This transformation initiative has turned out to be laborious. Of the 21 MFIs that applied for SPEED's support, 9 were selected; of these, 4 dropped out due to the high costs of establishing ownership and governance structures in line with Bank of Uganda requirements. Of the five that remained, two received their MDI licenses.

In some cases, though, policy reform was deliberately left out of the program design. USAID/El Salvador elected not to finance legal and regulatory work with the Superintendent of Financial Systems (SFS) through FOMIR, but rather through separate task orders. The Mission opted not to include this activity in FOMIR's scope of work to reassure the government that their advisors were providing guidance based on the best interests of the government, not only microfinance institutions. USAID/Philippines also contracted a microfinance legal and regulatory program that worked in parallel to MABS and CUES.

More often than macro-level support, umbrella programs provide assistance to meso-level organizations including MFI associations with the potential to positively influence policy on behalf of their members. For example, while the AHAP umbrella program in Azerbaijan was not designed to serve as a tool for developing macro-level policy issues, its support to MFIs over the last eight years has indirectly contributed to the creation of meso-level institutions like the Azerbaijan Microfinance Association (AMFA).[13] In the Central Asian republics, CAMFA provides similar assistance to MFI associations, as did the FOMIR program in El Salvador.

Mission officers generally believe the procurement vehicle for any program with policy activities should be a contract as opposed to a cooperative agreement. Policy work is typically sensitive and a contract provides more direct involvement. Under a grant or cooperative agreement, USAID is in theory making a financial contribution to achieving the vision of some other entity. With this distinction in mind, it is interesting that AHAP operated under a cooperative agreement and was able to help secure a more hospitable legal and regulatory space for NGOs to operate in Azerbaijan.

Hypothesis 3: Umbrella programs encourage synergies and knowledge-sharing between components and among diverse stakeholders.

As highlighted in Box 3, knowledge sharing among microfinance institutions operating in the same environment is critical to the creation of a stable and growing microfinance industry. Knowledge exchanged often includes information on legal and regulatory trends and impact, coordination of advocacy efforts, and the sharing of financial information to increase transparency and enhance benchmarking. Evidence from the five Mission case studies in this study indicates that well-managed umbrellas can, and do, encourage knowledge sharing and coordination among diverse stakeholders; however, there are occasionally issues in coordination across program components.

Box 3. Dividends from Learning And Coordinating Across Programs

MABS and CUES provide a good example of how synergy and knowledge sharing can effectively work across programs. The COPs of the two projects meet twice monthly with USAID's Economic Growth Office, and staff from each project are invited to events sponsored by the other. Each project also keeps a close eye on new initiatives and ideas launched by the other. For example, MABS borrowed the idea for MABSTERS training-of-trainers from the CUTE program, developed by CUES; in addition, MABS modeled its EAGLE awards on the FOCCUS award initiated by CUES.

[13] AMFA represents the interests of non-bank institutions, including micro and SME lending institutions. Working to strengthen the capacity of member MFIs and promote effective collective action to advance the interests of the Azerbaijan microfinance community, AMFA has had a positive effect on advocacy, public relations, transparency, and information exchange.

When multiple single-purpose agreements or contracts are used in lieu of an umbrella design, USAID typically must assume this coordination role. While USAID Missions have the ability to coordinate the exchange of information between single-purpose implementers, the competitive nature of these stakeholders and their unwillingness to share information with competitors typically results in a less-than-perfect transfer of knowledge. Even so, in the given sample of cases, there are many examples of knowledge sharing and coordination across programs and sectors at the national, regional, and global levels.

At the national microfinance market level, PRESTO and SPEED contributed greatly to knowledge sharing within the Uganda market. All PRESTO training materials were provided to the Microfinance Competence Center (a GTZ-supported training institute within the Institute of Bankers) and continue to be used. In the Philippines, MABS and CUES both do a good job of forging synergies and sharing knowledge. MABS holds regular regional and national roundtable discussions, inviting all 72 banks participating in MABS to discuss new technologies and exchange information on ways to improve microfinance operations. CUES holds regular monthly manager meetings for participating credit unions, enhancing participants' ability to share information and track developments in the legal and regulatory environment.

At the regional level, CAMFA offers additional indirect assistance by encouraging its partners to collaborate and share knowledge. While many of CAMFA's partners are *de facto* competitors, the volatile and sometimes hostile environment in which MFIs operate has encouraged them to work together in the face of outside pressure from governments. CAMFA has encouraged partners to share information, form associations, and disseminate lessons learned in an effort to combat these external pressures while strengthening domestic and regional microfinance markets.

At the global level, the SPEED program's Performance Monitoring Tool (PMT) for Ugandan institutions was not only shared widely in Uganda and East Africa, but also used as far away as East Timor. In El Salvador, the FOMIR program successfully encouraged its partners in reporting to the Microfinance Information Exchange. Additionally, FOMIR conducted studies on the unique aspects of the program. For example, it produced a useful paper on the program's approach to restoring livelihoods through financial services after a series of devastating earthquakes, which served as a useful tool in planning donor responses to recent disasters in Sri Lanka and Pakistan.

Various evaluations of AHAP also concluded that Mercy Corps was effective at coordinating activities, forging synergies, and exchanging information. In a 2002 evaluation of the AHAP program, Management Systems International noted that "the most striking and most valuable aspect of the AHAP umbrella – and of Mercy Corps' management – is the atmosphere of collaboration and coordination that exists among the partner institutions. It is rarely found in such degree and greatly increases the impact and effectiveness of the AHAP partnership."

While umbrellas may share knowledge within the national and international communities, they sometimes have issues coordinating across components within the program itself. For example, in Uganda, the PRESTO program had three components: policy and regulatory reform, institutional support for the Center for Microfinance, and the Business Association Initiative. Although there was plenty of overlap between the three components, in reality there was little coordination among them.

Hypothesis 4: In the case of contracts, umbrella programs increase accountability through the ability to contractually tie funding to results.

Both contracts and grants/cooperative agreements may be used for the achievement of results. However, neither contracts nor grants/cooperative agreements offer any greater or lesser degree of accountability for performance or the achievement of results. Recipients of grants/cooperative agreements are responsible for using their best efforts to achieve results, as are contractors. The main difference is that contractors are achieving results defined by USAID, whereas recipients of grants/cooperative agreements are achieving results that are within their own mandate as well as USAID's.

The perception from Mission staff and some for-profit consulting firms is that contracts provide a greater ability to "tie funds to results." The ability to tie payments under contracts to results depends on the type of contract used. The U.S. government's preferred type of contract is fixed-price, under which the contractor is paid a fixed amount for specified deliverables or outputs. However, a fixed-price contract requires a definitive statement of work, which is seldom possible in USAID due to external factors that can affect performance – i.e., unforeseeable changes in the policy environment.

The typical types of contracts used for microfinance umbrella programs are cost-reimbursement (CR) and time-and-materials (T&M) contracts. Assigning accountability for results means that such results must be within the partner's "manageable interests" – i.e., its independent ability to ensure it can achieve the desired result. So, in terms of achieving results that are beyond the output level, such as appropriate policies for a microfinance market, USAID's CR and T&M contracts and its cooperative agreements are similar in terms of ensuring results, as both are "best effort" arrangements.

It is assumed that contracts enable payments (and/or financial incentives, either negative or positive) to be tied to performance. Contracts such as cost-plus-award-fee and cost-plus-incentive-fee allow for an additional fee to be paid to the contractor for good performance. However, this arrangement imposes a significant administrative burden on thinly stretched USAID staff, and is therefore rarely used. Additionally, USAID experience has also shown that tying fees to results can distort performance by creating incentives for the contractor to focus on activities that will maximize the fee, often to the detriment of other important activities.

Virtually all of USAID's multiyear awards are incrementally funded. Thus, additional tranches may be withheld if performance is unsatisfactory. In this sense, financial accountability is essentially the same for contracts and grants/cooperative agreements. In the end, an organization's past performance report is perhaps a stronger mechanism for accountability than tying payments to results or any other type of motivator.

Hypothesis 5: Umbrella programs reduce program costs and mission management burden by reducing the number of procurement actions and management units.

While there is only limited evidence suggesting that umbrella programs are less costly in terms of program funds, there is stronger evidence indicating umbrella programs reduce costs in terms of lowering USAID's management burden.

The notion of management units refers to a discrete activity that must be managed, overseen, monitored, and reported on by USAID. In this construct, one umbrella program is equivalent to one single-purpose program. Whether implemented under a contract or via a cooperative agreement, the effect of an umbrella program is to shift a large share of the burden off the USAID Mission. Umbrella programs shift procurement and financial management responsibilities for many entities or activities from USAID to the umbrella manager, thereby saving OE funding, which is scarcer than program funds.

In the El Salvador FOMIR I example, over $9 million was targeted for subgrants for 11 competitively selected financial institutions. Although USAID approved major subawards, these matters were managed through FOMIR staff with program funds. There were more than a dozen subgrants under USAID/Uganda's PRESTO. Likewise, SPEED also managed several subgrants and subcontracts, as will

Rural SPEED. While USAID staff members are involved in approving subawards, they are relieved of the procurement burden.

All of the Missions interviewed reported they were under intense scrutiny to reduce the number of management units. For example, in USAID/Azerbaijan's 2004 Interagency Country Assistance Review (ICAR), Washington, D.C., officials insisted that the Mission must reduce the number of management units in its portfolio. Only a few years ago, USAID/Uganda had 25 management units. They are now hovering around 13 and are supposed to get to a total of 3 to 5. The CAR Mission is managing programs across five countries. If we take CAMFA as the comparison, with its three main components, USAID/CAR would hypothetically have to replace the single umbrella program with up to 12 discrete activities, constituting a substantial management burden.

Hypothesis 6: Umbrella programs fail to invest sufficiently in market leaders or to provide them with well-tailored and comprehensive assistance; for example, this could be a particular issue in relatively immature microfinance markets.

From interviews and conversations carried out during this study, we understand that this hypothesis is best dissected and answered as three related sub-hypotheses:

- Umbrellas fail to invest sufficiently in market leaders.
- Umbrellas fail to provide well-tailored and comprehensive assistance.
- Umbrellas are inappropriate in immature markets.

1. Umbrellas fail to invest sufficiently in market leaders.

There was scant evidence indicating umbrella programs fail to invest in market leaders. More often, USAID elects to support market leaders capable of serving the largest number of enterprises or clients. Many umbrella managers use similar approaches to selecting and/or accrediting MFI partners. Typically the selection process identifies institutions with the greatest potential for growth and sustainability, and with management that understands the importance of upgrading staff skills and systems and has a willingness to diversify products and services. Umbrella programs have consistently found such institutions to be the best partners due to their willingness to accept and adopt change.

In Uganda, the SPEED programs heavily targeted market leaders in an effort to increase their readiness to meet deposit-taking requirements. Nearly 70 percent of total funding for the FOMIR I program in El Salvador directly benefited market leaders. A departure from supporting a mere handful of market leaders was USAID/Philippines, where subsidies took the form of technical assistance, training, and linkages with support services and were made to dozens of rural banks and credit unions.

This study revealed the potential trade-offs of supporting only a handful of market leaders. For example, the USAID/El Salvador programs FOMIR I and II worked with institutions capable of generating the greatest impact for the largest number of microenterprises or clients. FOMIR II narrowed the universe of assisted financial institutions from 11 to 6. Many of those institutions interviewed, including those that received funding under FOMIR I but not FOMIR II, believed this to be the right decision. FOMIR II's six institutions accounted for nearly 60 percent of the total market and had the greatest potential for expanding the breadth of financial service delivery. However, this strategy reduced the programmatic focus on poverty reduction: FOMIR II institutions average loan size increased by 20 percent (from $1,104 to $1,409) in just two years (2003-2005).

Investing heavily in market leaders also has the potential to distort markets. Selection as an umbrella partner may well be an opportunity for an MFI to capture greater market share and enhance sustainability;

however, those that are not selected are at a disadvantage, widening the gap between market leaders and second-tier institutions. But a certain winner-loser dynamic may be unavoidable. Ultimately, donors must select a group of institutions, an economic sector, a target population, or a geographic area that best supports their overarching development objective. The trick is to be sure that distortions are minimized and to choose the market leaders based on the right criteria, such as the market problems that are being targeted for solution, such as lack of rural service.

Some strategies have emerged that allow USAID to focus on those with the greatest potential for scale and sustainability while supporting second-tier and start-up MFIs. In Central Asia, in addition to supporting market leaders, CAMFA is supporting a large number of smaller, less-developed MFIs in the bottom 50 percent of the market thru a second-tier lending institution. FOMIR II made training available to all microfinance organizations – not just its official subawardees – albeit at different levels of intensity.

2. Umbrellas fail to provide well-tailored and comprehensive assistance.

With limited exceptions, the assistance provided by the umbrellas profiled in this study was comprehensive and well tailored. For example, under the FOMIR program, local and expatriate consultants were used in areas where they were best suited. Where local consultants were strong – in information technology and operations – 33 person months of local LOE was used, versus 21 person months of expatriate LOE. In areas where local consulting capacity was weak – marketing and strategic planning – 42 person months of expatriate LOE was used, as opposed to just 13 person months of local level of effort. And, as the market grew, the program leveraged relatively more local assistance compared to expatriate. Under the first FOMIR program, the ratio of short-term Salvadoran to short-term international assistance was nearly five to eight. In contrast, the FOMIR II follow-on program, which also operated under a contract, employed local and third-country consultants six times more often than U.S. consultants. Moreover, with occasional exceptions, the assistance provided by DAI under the FOMIR program appeared to be well tailored. The FOMIR contractor performance report stated, "Almost all of the institutions assisted expressed satisfaction with DAI. Some mentioned that the contractor was not imposing ….This flexibility and quality helped them better reach their targets."

3. Umbrellas are inappropriate in immature markets.

It is difficult to make any sweeping conclusions about whether umbrella programs make sense in immature microfinance markets. In-depth case studies in immature markets include USAID/CAR and USAID/Azerbaijan. In the case of CAR, opportunities for intervention at various levels of the financial system were grouped regionally. It is unlikely that Tajikistan and Uzbekistan would have the funding to justify an umbrella program; however, when brought together with the other Central Asian Republics, training and technical assistance could be grouped and economized. Before CAMFA, CAR supported the establishment of regional MFIs with single purpose, retail-level programs. Similarly, in Azerbaijan, USAID supported the establishment of several MFIs through single-purpose programs.

USAID experience starting up MFIs through single-purpose grants – often to international microfinance networks and in immature markets – has been strong. USAID/MD has supported dozens of start-up microfinance organization in immature markets. For example, USAID/MD recently funded start-up institutions in the Democratic Republic of Congo and Afghanistan. USAID/Sudan recently funded the creation of the Sudan Microfinance Institution (SUMI) from scratch. Our experience suggests that in immature markets where there are few players, a single-purpose, institutional development program may make better sense. However, umbrellas may offer a better design in markets with a number of microfinance institutions and the potential to strengthen an enabling policy environment and supporting services.

Hypothesis 8: Umbrella programs rely on the skills and credibility of the Chief of Party to ensure effective coordination with government and other donors.

Box 4. Umbrella COP Credentials

There were very few differences in the credentials of COPs between NFP and FP umbrella implementers. On average, umbrella COPs had the following profile:

- 23 years of professional experience
- 8.5 years of USAID program management experience
- 11 years of microenterprise experience
- 12 years of overseas experience
- 86 percent with advanced degrees

Research of a diverse set of umbrella stakeholders universally found that an umbrella program requires a top-flight Chief of Party (COP) with good interpersonal and communication skills. This need is reflected in the credentials of COPs. A review of the qualifications of 22 COPs managing microfinance umbrellas revealed that they are skilled microfinance technical experts and development managers with extensive overseas experience (see Box 4).

In Azerbaijan and elsewhere, there was agreement that the COP is the human interface not only between the program and USAID, but also usually with a wider community of donors and programs and almost always with government officials. The success of AHAP was partially attributed to a COP who was adept at managing a diverse set of partners, had the ability to influence stakeholders, worked well with government officials, and coordinated effectively with USAID. The AHAP COP advised partner NGOs on legal and tax questions and interfaced with the Government of Azerbaijan on their behalf. The COP also played a role in helping two AHAP-supported MFIs get legally registered.

The Central Asia case study reviewers found that reaping the benefits of the Mission's reduced management burden was inherently tied to the selection of the Chief of Party. A skilled COP – one who is not only technically skilled, but also understands USAID program management – can help the Mission focus on larger issues of management and strategy rather than day-to-day administration. CAMFA's COP has proven to be highly effective and is widely respected by her colleagues, government officials, and other donors in the region.

A poor performing COP is a significant liability. In the case of the FOMIR program in El Salvador, the initial Chief of Party had very limited success meeting program objectives. The Mission and implementing contractor concurred that although the COP had a strong administrative background, he lacked the requisite technical depth. The COP was replaced and performance resumed. The MABS program in the Philippines performed much better after the initial COP was replaced.

Missions should pay particular attention to the selection and approval of an umbrella Chief of Party and ensure that the COP selected is not only technically qualified but also is adept at managing partner institutions and has substantial program management experience.

Hypothesis 7 and 9: Umbrella managers tilt their technical assistance toward their own expertise and take advantage of financial incentives inherent in using expatriate short- and long-term assistance.

Our research – interviews with dozens of FP and NFP stakeholders, as well as with USAID officers – indicates that hypotheses 7 and 9 are based on the same assertion. Hence, we are departing from the initial scope of work and consolidating and re-phasing these hypotheses.[14] The cost dynamics of umbrella programs and their FP and NFP managers are discussed in detail in Annex G.

---

[14] Hypothesis 7: Umbrella programs distort technical assistance, training, and other services toward the expertise of the umbrella program manager's staff capacity, financial considerations, etc., rather than the demands of the market; and Hypothesis 9:

Some observers believe that umbrella managers tilt assistance toward their own organization's expertise and take advantage of the contractual financial incentives inherent in using expensive expatriate assistance. However, the manner in which typical USAID contracts are structured limits financial incentives to employ higher priced labor.

Under cost-reimbursement contracts, the contractor is reimbursed for the actual costs incurred. So, regardless of whether the contractor is using an expatriate at, say, $500 a day, or a CCN/TCN at $250 a day, the contractor is going to get reimbursed for the $500 or $250. On a cost-plus-fixed-fee (CPFF) contract – the most common type of cost-reimbursement contract used in USAID – the fixed fee will be expressed as dollars, not as a percentage. Federal law prohibits cost-plus-percentage-of-cost (CPPC) contracts.

If the fee is viewed as a rate of return, a fixed amount of fee dollars of, for example, $100,000, if applied to actual costs of $1,000,000, yields a 10 percent rate of return. But if fee dollars were $100,000 but actual costs were $500,000, the rate of return would be 20 percent. Either way, as long as the contractor successfully performs, it will receive the fixed amount of fee dollars.

Under this scenario, it behooves the contractor to minimize actual costs to maximize the rate of return, rather than maximizing costs with high-priced expatriate labor, which minimizes the rate of return. Since virtually all grants/cooperative agreements and USAID contract mechanisms are cost-reimbursable, no organization stands to gain financially by using high-cost expatriates rather than lower-priced local hires, as the organization will be reimbursed for its actual costs.

Box 5. Is There a Level Playing Field for For-Profits and Not-for-Profits?

The Level Playing Field Analysis carried out for this study dissects the various elements of USAID procurement policy and how these policies create USAID officer perceptions of the character of NFPs and FPs. The full discussion is presented in Annex F. Some of its findings are summarized in Section IV, Summary of Findings.

Lastly, the process for selecting assistance packages is uniform across most umbrella programs and counters assertions that umbrellas skew assistance toward their own capacities. Most umbrella programs provide assistance to participating institutions to support an agreed-upon institutional development plan. In most cases, the plans are based on MFI wishes and due diligence. Hence, by providing the technical assistance and training that is requested by the MFI, the process is demand-driven and umbrella managers can generally avoid tilting assistance toward their own capacities. Further, umbrellas are implemented by groups of organizations. MABS, for example, has 30 local and 7 international subcontractors from which to draw capacities.

Some evidence of the possible inappropriate use of expatriate assistance was found in Uganda. The first umbrella, among a succession of these programs (PRESTO), built indigenous and regional training capacity to bring best practices to local MFIs. However, the following umbrella program relied more heavily on foreign assistance providers for local capacity building. The implementing organization and the USAID Mission reported that there was insufficient capacity in the local market to meet the program's transformation objectives, making the use of expatriate personnel appropriate. The risk that inappropriate, expensive expatriate personnel are used can be mitigated by a thorough review of the capacities of local

---

Umbrella programs use higher-cost alternatives to provide training and technical assistance that result in other inefficiencies in program implementation and design.

consultants and organizations before solicitations for new programs are issued and proposed budgets developed. This sentiment was echoed by USAID officers.

Hypothesis 10: Umbrella programs reduce involvement by Mission staff in program management, including decisions concerning fund allocation to retail service providers, networks, and other TA providers.

While policies ensure that Mission staff retain approval authority in the case of umbrella programs, some providers perceive USAID as less engaged in the decision-making process. A review of USAID policies and procedures, interviews with key stakeholders, and analysis of the five Mission case studies indicated a consensus exists that USAID Missions are engaged in key funding decisions and continue to stay abreast of program developments and industry trends when umbrellas are used. Mission staff reported that they remain abreast of a wide range of activities, trends, and current issues related to programs through comprehensive reports prepared and submitted by umbrella managers. Mission staff also opined that such reporting has enabled USAID to zero in on problem areas requiring attention.

Through umbrellas, Missions outsource the management of the award decision-making process, significantly reducing the administrative burden on Mission staff. Umbrella managers typically will prepare and issue the RFA/RFP instrument; organize and convene the review committee; ensure USAID procurement rules and regulations are applied; complete any additional due diligence; conduct pre-award audits as necessary; negotiate the final subaward; and manage the use of the funds. These are all items that USAID must handle internally in the case of single-purpose awards and involve substantial involvement on the part of a range of Mission staff.

USAID still retains the authority to approve subawards, ensuring that it is involved in the fund allocation decision-making process.[15] In Azerbaijan, the Mission stressed that decisions, including fund allocations, are made through detailed proposals, life-of-program work plans, annual work plans, and quarterly reporting.

[15] Cooperative agreements require that subgrants not identified in the original proposal be approved by USAID, per OMB Circular A-110, as implemented by USAID in 22 CFR 226.25[c][8]. It is USAID's policy that subgrants issued under contracts must be approved as per ADS-302.5.6.

IV. SUMMARY OF FINDINGS

These findings are culled from the analysis of the funding flows to umbrella programs, the responses to hypotheses in the preceding section, our analysis of the differences in cost structures between FPs and NFPs (Annex G), and the Level Playing Field Analysis (Annex F). Although there are many interesting results, the following nine best encapsulate the study's major findings.

Finding 1: USAID support for enterprise development is growing faster than funds for microfinance and the use of umbrellas to deliver microfinance assistance is growing.

While USAID funding for microfinance has experienced large fluctuations over the last 10 years, overall it has grown, rising from $80 million in 1996 to $100 million in 2005. Over the same period, USAID support for non-financial enterprise development services and policy work has risen steadily, growing from $37 million in 1996 to $113 million in 2005. This trend illustrates that microfinance and enterprise development is a growing priority. The use of umbrella programs to support microfinance has generally increased, rising from 11 percent of USAID support for microfinance between 1997 and 1999, to 26 percent between 2002 and 2005. Data analysis and interviews with key USAID headquarter and Mission staff for this study revealed that this trend is likely to continue.

Finding 2: No conclusions could be drawn indicating whether FP or NFPs – even within the universe of microfinance implementing partners – were more cost effective, as there are no viable proxies for measuring cost effectiveness for these programs

The number and subjective nature of relevant variables were too great to substantiate or refute assertions regarding the relative cost effectiveness of for-profits and not-for-profits in the sector. The study analyzed three proxies to determine whether FP or NFP organizations were more cost effective: indirect costs, personnel costs, and cost-per-microfinance client. The analysis applied each cost-effectiveness proxy and highlighted its limitations. Indirect costs are calculated differently between and among FPs and NFPs and are therefore not comparable. There were no distinct trends in terms of personnel salaries or credentials between for-profits and not-for-profits, nor was any conspicuous tendency revealed on the part of consulting firms to inappropriately use high-cost labor compared to not-for-profits. Using cost-per-microfinance client as a measure to distinguish the relative cost effectiveness of programs led by FPs and NFPs is also meaningless: cost-per-client cannot be attributed to a single USAID program, as MFIs often receive assistance from multiple sources. Further, market dynamics and institutional growth cannot be attributed to a USAID program.

Finding 3: The playing field between FPs and NFPs is not level.

The key question is this: Why are umbrellas led so often by for-profit consulting firms?

1. Umbrellas are issued under IQCs. NFPs opine they are not afforded an opportunity to bid on umbrellas as they are often issued under indefinite quantity contracts (IQC).[16] The rationale is that microfinance NFPs lack the capacity to manage an IQC, which can have ceilings of several billions of dollars. Many small and mid-size microfinance NFPs participate as subcontractors under IQCs led by large firms and play a niche role. But NFPs complain that in many instances this arrangement does not result in meaningful funding or significant information transfer allowing NFPs to bid as prime managers on future IQCs. NFP new business prospects are not enhanced, as the perception of USAID officers designing and overseeing microfinance umbrella programs is that these programs should be issued under contracts.

2. Perception of USAID officers and the level of control. Many USAID officers believe that a greater amount of USAID involvement is required in many microfinance umbrella programs, particularly those with policy components. (Roughly 40 percent of USAID umbrella programs have policy components.) Further, many USAID officers view FPs as more responsive than NFPs. But the perceived differences between NFPs and FPs are often the result of the nature of the instrument, not the character or legal status of the implementer. Under acquisitions instruments FPs have been held to higher and more frequent reporting standards, creating an impression that FPs may be more responsive with regard to financial and program reporting. Many in USAID erroneously perceive the ability to approve key personnel under acquisition instruments as the ability to direct the removal of a key person, and contractors ordinarily are responsive. Nevertheless, the misperception that USAID may direct the removal of key personnel favors the use of acquisition instruments over assistance, thereby benefiting FPs. A full analysis of the playing field for for-profit and not-for-profits is provided in Annex F.

Finding 4: There is no distinction between the quality of implementation between FPs and NFPs.

The legal character of the entity managing the umbrella program, whether for-profit or not-for-profit, does not influence how responsive it is to market demand. Three not-for-profits and three for-profits led the programs reviewed in the case studies. All have been judged as having achieved results that either met or exceeded performance objectives. Both MABS (implemented by for-profit Chemonics) and CUES (implemented by not-for-profit WOCCU) appear to be good examples of market-driven programs. Likewise CAMFA (implemented by a NFP) does an excellent job of meeting the institutional demands of local MFIs. The study also revealed that the hypothesis that it is easier to “tie funds to results” via a contract than a cooperative agreement or grant is generally incorrect. Rather, accountability for results is tied to the partner’s manageable interests. Most USAID programs involve working with fluid social and economic dynamics that are not manageable. Therefore, typical USAID contracts and cooperative agreements are essentially “best effort” arrangements.

Finding 5: Potential conflicts associated with NFP-led umbrella can be obviated.

There were two types of conflicts of interest identified in examples of NFP-led umbrellas. In Azerbaijan, Mercy Corps was barred as the prime manager of AHAP from also taking an implementation role, a measure designed to reduce or eliminate conflicts of interests. Some subgrantees felt that, given Mercy Corps’ access to their business information as umbrella manager, it would be unfair if it also competed with subgrantees for other USAID awards. Mercy Corps was also barred from bidding on other

---

[16] Paralleling the declining staff size and skills is the trend toward large menu-driven procurement vehicles, including IQCs and Leader With Associates (LWAs), in lieu of full and open competition. USAID’s internal working committee on human resource planning and business systems states that the great majority of procurement transactions occur through IQCs and LWAs rather than stand-alone RFPs.

USAID/Azerbaijan grant opportunities while it managed the umbrella program. In CAR, on the other hand, ACDI/VOCA was not barred from managing CAMFA and implementing other USAID microfinance programs in the region. More than one CAMFA partner complained it was inappropriate for ACDI/VOCA to run CAMFA at the same time it was running an MFI. In addition, several CAMFA partners suggested it was inappropriate for CAMFA's COP to sit on the board of directors of Frontiers, a second-tier lender, and approve or deny requests for loans, including loans to ACDI/VOCA's local MFI. In sum, USAID Missions need to take care that they structure relationships between the NFP umbrella program management entity and subawardees in a way that obviates potential conflicts of interest. Even so, potential conflicts between NFPs tend to be relatively minor – and there are in fact advantages to not-for-profits serving as umbrella managers. A 2002 evaluation of the AHAP program noted the following: "The most striking and most valuable aspect of the AHAP umbrella – and of Mercy Corps' management – is the atmosphere of collaboration and cooperation that exists among the partner organizations."

Finding 6: A COP with strong technical and managerial skills is key for umbrella program success.

Mission officers generally agreed that umbrella program performance is in part tied to the strength of the COP. In the case of FOMIR and MABS programs, the first COP's performance fell below expectations. The Mission was not satisfied with his performance, and the implementing contractors replaced the COP. Both programs were quite successful in resuming performance. FOMIR and MABS examples demonstrate that even though USAID does not have the explicit authority to replace key personnel under acquisition instrument, by practice, contractors generally will listen to USAID's wishes, enabling the Mission to exercise more control under a contract, particularly in regard to personnel. Secondly, selecting the right COP is even more important under a cooperative agreement. Once a COP is approved under a cooperative agreement, USAID's ability to replace that person is more limited.

Finding 7: Non-financial incentives can be leveraged for change and accountability.

As an alternative to financial incentives, i.e. subgrants, MABS and CUES created highly prized awards – the EAGLE and FOCCUS awards – to recognize excellent performance. In addition to rewarding its partners for good performance, CUES has retained the authority to decertify them for non-performance. This approach has effectively stimulated commitment to best practices without a need for financial sanctions, resulting in increased accountability for performance to MABS and CUES and, in turn, to USAID. The lesson of this experiment is that non-financial incentives like public recognition can be as effective as financial incentives at ensuring accountability.

Finding 8: Sustainability is enhanced through meaningful partnerships with microfinance networks.

Rather than compete with microfinance networks with affiliates in El Salvador, FOMIR worked closely with its partner MFIs and networks to strengthen relationships. FOMIR I was active in promoting stronger affiliations between ACCION International and its affiliate Integral, IPC and Financiera Calpia, and FINCA International and its local affiliate. As subcontractors and partners, DAI used international networks to deliver assistance to their affiliates. This collaboration was effective at ensuring technical assistance continuity and was appreciated by FOMIR's MFI partners and networks.

Finding 9: Flexibility and opportunity-responsiveness should be built into umbrella design.

Umbrella programs should have the flexibility to fill unforeseen gaps in program design. As conditions change and new opportunities arise, it is easier to amend one umbrella contract or work plan than to modify multiple contracts and agreements. For example, although it was not originally a major part of CAMFA's work plan, the program responded to a need to strengthen meso-level capacity by supporting the formalization and institutional development of national MFI associations in each country. AHAP's microfinance activities were unusual in having been designed to support internally displaced persons (IDPs) in conflict-affected regions. With its focus on IDP target clientele, the program's initial emphasis was humanitarian rather on than institutional sustainability. This changed over time as managers discovered the difficulties of building a microfinance institution based on an exclusively IDP clientele. AHAP partners ADRA Kredit and Azeri Star began the transition from humanitarian assistance to more sustainable activities by broadening the target market for their products.[17]

[17] Barnes, Carolyn, and Gurbanali Aleperov, "Evaluation of Micro and SME Credit Activities in Azerbaijan," prepared by Management Systems International (MSI) for USAID/Azerbaijan, August 2003.

ANNEX A: STUDY SCOPE OF WORK

Purpose

The purpose of this assignment is to understand the advantages and disadvantages of umbrella programs, in order to provide better guidance to Missions on whether and when to use umbrellas, and how best to design, implement and manage these programs. In recent years, some USAID Missions have used umbrella programs to expand microfinance services to local communities nationwide, through support for a wide range of NGO and for-profit financial institutions and other "industry-building" activities such as policy analysis, legal/regulatory capacity-building, or creation of a credit reference bureau. Other umbrella programs seek to provide comprehensive support to microenterprise development (MED), with components focused on microfinance, business services, market linkages, the enabling environment for the informal sector, etc. While umbrella programs are typically managed by consulting firms, not-for-profit organizations sometimes play the lead role. Often a significant share of the overall dollar value of an umbrella activity is designated for sub-grants and subcontracts to other service providers.

Coming to a better understanding of when and how best to use umbrella programs to advance MED is unlikely without further objective study. To provide input to the analysis, USAID will convene an Advisory Group comprised of MED stakeholders – for-profit and not-for-profit entities that currently manage umbrella programs, other MED implementing organizations, mission staff, other donors, etc.

The ultimate goal of this study is to draft language for USAID policy guidance for Mission staff, and others, on the use of umbrella programs. This could include tools such as a decision-making and trade-off checklists, for considerations during both the design and implementation periods. It is possible that the time allocated in this scope of work will not permit for a full vetting, and resolution of the issues raised by contract programs, sufficient to formulate definitive policy and program guidance, and develop tools to support implementation of such guidance. In that event, EGAT/PR/MD may choose to modify and extend the scope of work or to prepare a follow-on activity.

Background

Umbrella programs, for the purposes of this paper, will be defined as those programs which deliver several different types of microenterprise development services – business development services, microfinance, enabling environment – under one comprehensive program. In addition, umbrella programs may be exclusively concerned with one of these components, but may include various activities to support the development of the component. For instance, an umbrella program targeting improvements in the microfinance arena, may have activities such as: training and technical assistance to microfinance service providers, provision of grants/loan capital, microfinance policy and legal/regulatory reform efforts, work on credit bureaus and ratings agencies. Additionally, an umbrella program may focus on a range of range of activities including, but not limited to strengthening the microfinance sector, broadening availability of business development services, integrating microenterprises into agribusiness, supporting policy reform processes to improve the enabling environment for informal-sector firms, etc.

Though contracted with a single procurement, umbrella programs may involve a single implementing organization or a consortium of a prime and subcontractors. While umbrella programs are typically managed by for-profit firms, not-for-profit organizations sometimes play the lead role. Often, a significant share of the overall dollar value of an umbrella activity is designated for subgrants and subcontracts to other international and local service providers, including private volunteer organization microfinance networks contracted to provide services to their affiliates.

In recent years, a number of USAID Missions have elected to support microfinance or microenterprise development through umbrella programs. They have done so for both programmatic and managerial reasons. The total share of recent MED funding awarded through contracts ranges between 20-30 percent (note, however, that a substantial share of funds in these contracts is subsequently received by not-for-profits through subgrants and subcontracts). Noting this trend, EGAT/PR/MD began informal investigation of the use of umbrella programs by Missions, including the rationale, common design features, and results achieved.

Scope of Research

USAID is requesting that a team of consultants undertake this research. USAID will initially compile a comprehensive list of umbrella programs supported by Missions over the past five to six years, providing information regarding the specific characteristics of each program, the duration of the program, and the objectives. Examples of such programs include: the PRESTO and SPEED projects in Uganda; DynaEntreprises in Senegal; the Central Asia Microfinance Alliance (CAMFA) in Central Asia; the Russia microfinance industry-building program; MED umbrella programs in Georgia, Armenia, Azerbaijan, and Romania; AMIR in Jordan; COPEME in Peru; and El Salvador's FOMIR project. In consultation with USAID staff, and with input from the Advisory Group, the consultant will select a sample of umbrella programs to study in greater depth.

The consultant will:

1) Study USAID documents related to the umbrella programs, e.g., the Request for Proposal (RFP) or Request for Application (RFA), sample work plans, and financial and program reports. The consultant will also interview appropriate stakeholders by phone and/or in-person to understand the program's rationale, design, implementation strategy, challenges faced, and final results. The analysis will examine the potential advantages and disadvantages of umbrella programs – vis-à-vis other programming options such as multiple cooperative agreements and/or contracts – and explore the trade-offs that may be encountered. The list below provides a few of the potential/perceived advantages of umbrella programs:

    - Provide financial and technical support to many service providers, so as to promote overall industry-building goals, including increasing competition and improving/diversifying products and services
    - Permit integration of policy reform activities with other activities
    - Encourage synergies, knowledge sharing between components and among diverse stakeholders
    - In the case of contracts, increased accountability through the ability to contractually tie funding to results
    - Reduced program costs and Mission management burden by reducing the number of procurement actions and management units (i.e., activities to be managed by Mission staff)

The following list provides a few of the potential/perceived disadvantages of umbrella programs:

- Failure to invest sufficiently in market leaders and to provide them with well-tailored and comprehensive assistance, for example, this could be a particular issue in relatively immature microfinance markets

- Distortion of technical assistance, training, and other services towards the expertise of the umbrella manager's staff capacity, financial considerations, etc. rather than the demands of the market

- Reliance on the skills and credibility of the Chief of Party to ensure effective coordination with government and other donor

- Use of higher-cost alternatives to provide training and TA and other inefficiencies in program implementation and design
- Reduced involvement by mission staff in program management including decisions concerning fund allocation to retail service providers, networks, and other TA providers

2) Analyze the types of umbrella awards that have been made – objectives, methods, funding levels, design – and the contexts in which they were used, particular types of markets, stage of market development, geographical regions, etc.

3) Analyze results. Questions might include: Did the program meet its specific objectives? Were there any unintended consequences? What was the impact on the broader industry or sector? What were the positive and negative attributions to the project? What was the impact on the local market for TA, training? Can local service providers source continued needs locally, and at local market rates? What has been the impact on the industry in the geographic area of coverage of the project? What was the ability of the program to be flexible to market needs/developments? Where appropriate, this analysis could include reference to other programming options and funding mechanisms.

4) Investigate/analyze other USAID and USAID Mission-relevant issues: For example, how did the cost effectiveness, ease of implementation, and efficiency of the umbrella program compare with alternative mechanisms? What was the extent of knowledge sharing beyond the immediate program participants?

5) Conclusion: What did the consultants find to be the advantages and disadvantages of umbrella programs? What are the issues that Missions should consider when contemplating an umbrella program? If they choose to develop an umbrella program: what type is likely to be most appropriate and how should it be designed and implemented in order to maximize the advantages and minimize the disadvantages?

6) After initial analysis has taken place, the consultants, USAID staff, and the advisory group will select several of the programs for more in-depth case studies. Each case study (maximum four) will include in-country work such as document review and interviews with key stakeholders using a variety of techniques, such as individual interviews, focus group, surveys, etc. Key stakeholders are the "market-players" in the microfinance industry or MED sector: USAID staff, microfinance institutions (MFIs) or other entities targeted for assistance by the program (e.g., policy makers, regulators, microfinance associations, business service providers, business associations), relevant host-country government officials, donor representatives, and in the case of local MFIs having affiliate PVO relationships, the PVO partner (whether a regional "hub" or U.S.-based office), and others as may be necessary. The three or four case studies will be selected to cover different geographical regions with microfinance/microenterprise sectors in different stages of development (e.g., contrasting a start-up market with a more mature market, urban vs. rural focus, etc.).

Summary of Findings

The Consultants will deliver:

Compilation of USAID microenterprise development programs in the past 5-6 years (number, location, scope, implementing organizations, value, use of subgrants and subcontracts)

- Analysis of data, a brief report on findings and a rationale for selection of case studies
- At least two, possibly three, in-depth country case studies of 8 – 10 pages
- Final Report: An Objective Analysis of Umbrella Programs of approximately 25 pages. This document will present analysis, key findings and recommendations
- Debriefing for the advisory group and USAID staff. This should include a presentation that may be shared more broadly

Timetable

The consultants will start work within two weeks of the contracting date and the expected level of effort will be a total of 20 person-weeks.

Costs

The consultants will be paid upon completion of the assignment. All expense related to the execution of the assignment (for example: air travel, visas, hotel and per diem, communications expenses, etc.) will be provided.

Qualifications

The consultants chosen will have the following required qualifications:

- Minimum 15 years experience in microenterprise and/or related fields. Exposure to full range of microfinance and MED approaches
- Project management of a microfinance institution, microenterprise project/program or other relevant project experience
- Excellent analytical, writing and oral communications skills
- Language skills relevant to areas of USAID umbrella programs to ensure in-depth case study analysis (e.g., Spanish, French, Russian, Arabic)
- Capable of open-minded analysis of complex, and often controversial, issues

The following qualifications are preferred:

- USAID experience within a Mission setting or in Washington, in order to understand the complex issues associated with program design and activity procurement
- Evaluation experience

ANNEX B: METHODOLOGY

The complexity of this undertaking dictated that this study be conducted in stages, and that a broad range of findings, analyses, and stakeholders be consulted. USAID/Microenterprise Development Office (MD) initially convened an Advisory Group of for-profit (FP) and not-for-profit (NFP) microenterprise implementing organizations to elicit feedback on the nature and use of umbrella programs and develop hypotheses regarding the advantages and disadvantages of these programs. Then, USAID/MD commissioned the Emerging Markets Group, Ltd., to study these issues, which included the populating of a database of umbrella programs with quantifiable data, and surveys of microfinance umbrella programs in Central Asia, Azerbaijan, Philippines, and Uganda. The projects selected represent a range of program variables, including region, market maturity, implementing organizations, and program duration. After soliciting analysis from the USAID Office of Acquisition and Assistance (OAA), and reactions from the Consultative Group to Assist the Poor (CGAP) and other independent consultants, USAID/MD then conducted further research, including adding USAID/El Salvador as a case study. This study represents a synthesis of findings, evidence, and observations from these sources.

Identification of Perceived Advantages and Disadvantages of Umbrella Programs

As a first step in examining umbrella programs as a funding mechanism for microfinance, MD worked with an Advisory Committee composed of key USAID partners from both the for-profit and not-for-profit communities. Through an informal, iterative process and series of exchanges, this group identified the perceived advantages and disadvantages of umbrella programs. Each of these perceptions was then treated as a research hypothesis and incorporated into an interview guide for stakeholder interviews.

Review of Secondary Background Documents

Beginning January 2005, consultants commissioned by the USAID/MD reviewed USAID project documents related to a large sample of programs MD had identified as meeting the definition of an umbrella program. These documents included scopes of work contained in USAID procurement solicitations, quarterly and annual reports, project evaluations, data from Microenterprise Results Reporting, and other documents. A list of the documents reviewed for the final synthesis report and the case studies is provided in Annex H.

Stakeholder Interviews

Concurrent with the initial review of background documents, the consultants conducted semi-structured interviews with MD's stakeholders, including U.S.-based international microenterprise development organizations, consulting firms, USAID/MD staff, experts from the international donor community supporting microenterprise development, and others. The interviews took place either in person in Washington, D.C., or by telephone. To guide the interviews, an interview guide was prepared regarding the purpose of the study, definitions of umbrella programs, and the perceived advantages and disadvantages of umbrella programs. A list of all interviews conducted is found in Annex C.

Selection of Case Studies

After completing a review of background documents and most of the Washington, D.C.-based stakeholder interviews, the consultants presented their recommendations to MD regarding which umbrella programs should be studied in more depth, through in-country visits. This step was facilitated by a database that had been populated with quantitative and historical information on 31 microfinance umbrella programs, as defined by MD. The rationale for selecting the particular umbrella programs included a desire to have a mix of experience with respect to several variables:

- The stage of market maturity for delivering microenterprise development services
- The size of the USAID Mission
- The number of microenterprise-related components or activities
- Coverage of USAID's four major geographic regions
- The availability of independent evaluations

MD made the following selections:

Azerbaijan – The country program is served by a Country Coordinator's office in Baku, which reports to the Caucasus Regional Mission in Tbilisi, Georgia. The Azerbaijan market is judged to be immature. There is a large umbrella program, managed by a U.S. NFP, whose purpose is to address the relief and development needs of internally displaced persons and includes subgrants to two U.S. NFPs for microfinance activities. There are also three large, single-purpose CAs with U.S. NFPs for microfinance originally approved by OMD and now managed by USAID/Azerbaijan. Both the umbrella program and the single-purpose CAs had been the subject of independent evaluations.

Central Asian Republics – The country programs are served by a large regional Mission located in Almaty and satellite offices in each of the five republics. The markets vary from immature to maturing. There is a large microfinance umbrella program managed by a U.S. NFP whose activities span all of the CAR, as well as a micro and small enterprise development project managed by a U.S. consulting firm. USAID/CAR is implementing umbrella program under all of its Strategic Objectives. Both of the microenterprise-related umbrella programs have been the subject of independent evaluations.

The Philippines – A large Mission, also with regional responsibilities, wherein microenterprise projects operate in a mature market, with a strong central bank and rapidly developing financial sector infrastructure. Of the two umbrella programs of interest, one is managed by a U.S. consulting firm and emphasizes delivering financial products for micro depositors and borrowers through the rural banking system. The other is managed by a U.S. NFP that is building the credit cooperative industry. The former project had been the subject of several independent evaluations.

Uganda – A large Mission with a history of using umbrella programs for microfinance and microenterprise development, operating in a relatively mature market. Three of the last four umbrella programs have been managed by the same U.S. consulting firm. There have been two independent evaluations.

El Salvador – A mid-sized Mission, with a history of funding umbrella microfinance programs, USAID/El Salvador's Latin American economic and social context adds diversity to the other cases.

Once the countries were selected, the consultants contacted Mission personnel, who compiled a list of those to be interviewed. Generally speaking, the list of interviewees included Mission personnel, implementing organization representatives, government officials, and other stakeholders. A questionnaire similar to that used for D.C.-based stakeholder interviews was used to guide the interviews. In total, 211 interviews were conducted.

Final Report

In addition to the case studies, EMG compiled a synthesis report from background research, stakeholder interviews, and the country studies to draw out overarching findings and lessons learned and make recommendations to guide USAID on the use of umbrella programs in microfinance. Once submitted to MD, USAID's Office of Acquisition and Assistance, the Consultative Group to Assist the Poor, and independent consultants carried out a review of EMG's findings and identified key areas that required strengthening. Further research was undertaken by MD, including the addition of a fifth case study for

USAID/El Salvador. The final summary report and case studies are thus syntheses of findings, evidence, and observations derived from research carried out directly by MD as well as from EMG's study.

ANNEX C: INTERVIEW LIST

Main Report

Anderson, Gerald, USAID/EGAT/EG

Banjadee, Jay, Senior Specialist, Economic Opportunities, Save the Children

Berry, John, USAID/EGAT/PR/MD

Bittner, J. Peter, Senior Vice President, Middle East, Chemonics International

Boulter, Richard, Head of Growth and Investment, Enterprise and Development, Department for International Development

Branch, Brian, Chief Operating Officer, World Council of Credit Unions, Inc.

Carter, Joanne, Legislative Director, RESULTS

Chalmers, Geoffrey, USAID/MD

Cheston, Susy, Senior Vice President for Policy, Opportunity International

Cohen, Dr. Monique, President, Microfinance Opportunities

Conly, Jock, Director of Economic Opportunities, Save the Children

de Kanter, Dana, Executive Director, the SEEP Network

Downing, Jeanne, Business Development Services Team Leader, USAID/MD

Dressen, Robert, Group Vice President, Economics, Business and Finance, Development Alternatives, Inc

Evans, Anna Cora, Senior Manager-Development Finance, World Council of Credit Unions, Inc.

Field, Mike, USAID/MD

Fries, Robert, Vice President, Program Services, ACDI/VOCA

Green, Colleen E., Principle Development Specialist, Development Alternatives, Inc.

Helms, Brigit S., Lead Microfinance Specialist, CGAP/World Bank

Isern, Jennifer, Lead Microfinance Specialist, CGAP/World Bank

Jansen, Annicca, USAID/MD

Kennedy, Thomas, USAID/DCHA

Kleinberg, Scott, Enabling Environment Team Leader, USAID/MD

Lennon, Barry L., Financial Services Team Leader, USAID/MD

Logan, Melissa Gentry, Senior Vice President, Chief Knowledge Officer, Chemonics International

Lyman, Timothy R., President and Executive Director, Day, Berry & Howard Foundation

MacLeod, Stephen, Development Alternatives, Inc.

McKee, Katherine, Director, USAID/MD

McLean, Doug, Principle Development Specialist, Development Alternatives, Inc.

Miller, Terence, USAID/MD

Norell, Dan, Team Leader, Microenterprise Development, World Vision

Northrup, Zan, Practice Manager, Microenterprise, Development Alternatives, Inc.

Payne, Terry, USAID/OP

Rhyne, Elizabeth, Senior Vice President, Research, Development & Policy, ACCION International

Smith, Fred, Vice President, Europe and Asia, ACDI/VOCA

Stark, Evelyn, Microenterprise Development Advisor, USAID/MD

van Bastelaer, Thierry, Director, Enterprise Development Group, IRIS Center, Department of Economics, University of Maryland

Van Dusen, Anne, Interim President and CEO, EnterpriseWorks Worldwide

Weidemann, Dr. Wesley, President, Weidemann Associates, Inc.

Yanovitch, Lawrence J., Director of Policy and Research, FINCA International

Young, Stacey, Senior Knowledge Management Advisor, USAID/MD

Azerbaijan

Alyshanova, Samira, Community Housing Foundation Chief Financial Manager

Bouwmeester, Program Director, ADRA

Dangler, Richard, consultant to USAID (senior associate with Wiles and McLaughlin, LLC

Devkota, Bharat, International Relief Committee Country Director

Flowers, Jeff, FINCA Country Director

Goggins, James L., USAID Azerbaijan Country Coordinator

Guliyev, Elchin, USAID Program Specialist

Hamlin, Paul S., ACDI/VOCA Credit Advisor

Holbrook, William, Chief of Party, Azerbaijan Humanitarian Assistance Program, with Mercy Corps International

Ibaan, Valeria, USAID S.O. 3.1 Team Leader and Humanitarian Response Program Specialist

Kravchenko, Krill, Finance Director, Adventist Development and Relief Agency (ADRA)

Lee Jeffrey, USAID S.O. 1.3 Team Leader

Leonard, Sue, Program Director, Azerbaijan Humanitarian Assistance Program, with Mercy Corps

Mammadov, Elshan, Community Housing Foundation country representative

Mayshak, John, Shore Overseas Azerbaijan, Director

Mimica, Livia, USAID S.O. 2.1 Team Leader

Nelke, Tryggve, Save the Children Field Office Director

Ryan, Benjamin, Shore Overseas Azerbaijan, Deputy Director

Trainor, Michael, Senior Energy Advisor, USAID/Azerbaijan

Trebes, Catherine, USAID Program Officer

Yeleussizov, Seilkhan, USAID Senior Acquisition Specialist
Central Asia

Akbarova, Olga, Supervisor of Financial Services Department, FINCA Uzbekistan

Akimzhanova, Gulshat, Operations Manager, Kazakhstan Loan Fund (KLF)

An, Victoria, Project Coordinator, Central Asia Microfinance Alliance (CAMFA)

Arenova, Ainur, Executive Director, Association of Micro Finance Organizations of Kazakhstan (AMFOK)

Argo, Peter, Country Representative, USAID/Tajikistan

Bonner, James, Country Program Officer, USAID/Uzbekistan

Gaffarov, Nasim, Chairman, Development Fund, Tajikistan

Gasca, Peter, Regional Finance Practice Director, USAID Enterprise Development Project, Pragma Corporation

Gates, Patricia, Executive Director of FRONTIERS

Harden, David, Acting USAID CAR Director and Regional Legal Advisor

Harrit, Margaret M., Director, Office of Energy and Water, USAID/CAR

Isayev, Ulugbek, Project Management Specialist, USAID/Uzbekistan

Kassym, Arman, former Director of the Association of Micro Finance Organizations of Kazakhstan (AMFOK)

Lord, John, Regional Contracts Officer, USAID/CAR

Lyubar, Greg, Financial Analyst/IT Specialist, Central Asia Microfinance Alliance (CAMFA)

Makhkamova, Gulbakhor, Director of the Sugd Branch, National Association of Business Women of Tajikistan

Mametova, Elnura, Technical Assistance Manager, Central Asia Microfinance Alliance (CAMFA)

Morgan, John, Program Officer, USAID/CAR

Nazarov, Dmitriy, Director, Association of MicroFinance Organizations of Tajikistan (AMFOT)

Nazmetdinova, Sophia, Project Coordinator, Central Asia Microfinance Alliance (CAMFA)

Nicholson, Erin, Program Specialist, USAID/CAR

Norris, Mary, Director, Office of Enterprise and Finance, USAID/CAR

Portuyaginov, Natalya, Acquisition Assistant, USAID/CAR

Power, Rhett, Country Director, USAID Enterprise Development Project, Pragma Corporation

Redder, James H., Regional Controller, USAID/CAR

Sadykov, Farhod, Program Manager for Microfinance, Association of Scientific & Technical Intelligentsia (ASTI), Tajikistan

Salou, Emile, Chief of Party, Ferghana Valley Regional Micro-lending Program, Uzbekistan/Tajikistan

Serikbayeva, Gaukhar, Program Management Specialist, Office of Enterprise and Finance, USAID/CAR

Sharipova, Sanavbar, Executive Director, National Association of Business Women of Tajikistan

Shusupov, Salkar, General Director of Kazakhstan Loan Fund (KLF) and Chairman of the Board of Trustees for the Association of Micro Finance Organizations of Kazakhstan

Simmons, Robert, General Development Officer, USAID/Uzbekistan

Smith, Fred, ACDI/VOCA

Stallard, Janice, Chief of Party, Central Asia Microfinance Alliance (CAMFA)

Tohill-Stull, Amy, Project Development Officer, USAID/CAR

Turmakhanova, Galiya, Coordinator, Association of Micro Finance Organizations of Kazakhstan (AMFOK).

Tyuryaev, Farrukh, General Director, Association of Scientific & Technical Intelligentsia (ASTI), Tajikistan

Viacheslav, Rojkov, Country Director, FINCA/Tajikistan

Woldring, Hans, Project Manager, Farmer Ownership Model Technical Assistance Project, Sogd

Agro Serve (SAS), International Finance Corporation, Tajikistan

Zhakupova, Zhanna, Executive Director, Asian Credit Fund (ACF)

El Salvador

Alfredo Alfaro, Banco Multisectorial de Inversiones (BMI), MFI lender

Ana Maria de Carazo, Banco Agrícola, FOMIR I partner

Doug McLean, DAI, Chief of Party (FOMIR I), now Senior Practice Manager at DAI HQ

Esteban Arcos, CAM (FINCA Affiliate), FOMIR I partner

Francisco Hernandez, DAI, FOMIR I and II Project Monitoring and Evaluation Manager

Franklin Montano, ASOMI

Guillermo Villacorta, and Carman Alvarez, IDB

Jorge Alfaro, and Mauricio Aguilar, CONAMYPE

Jorge Mejia, DAI, FOMIR I and II Training Manager

Julio Segovia, Program Office, USAID/El Salvador

Manuel Torres, Apoyo Integral, FOMIR I and II partner

Marielos de Quiñónez, Contracts Office, USAID/El Salvador

Noemy de Flores, Microfinance Products and Services Manager, Banco Salvadoreno, FOMIR II Partner Officer (CTO) for the FOMIR program

Ricardo Segovia, CEO of ASEI FOMIR I and II partner

Robin Young, DAI, former Deputy Director of FOMIR, Microfinance Technical Advisor (FOMIR I)

Rosa Maria de Valiente, DAI, Project and Grants Administrator (FOMIR I and II)

Sandra Lorena Duarte, Financial Services Manager and Cognizant Technical Officer, USAID/El Salvador

Sheldon Schwartz, Program Officer, USAID/El Salvador

Sigfredo Figuera, CEO FUNDOMICRO

Tully Cornick, Deputy Mission Director, USAID/El Salvador

Wilson Salmeron, CEO of AMC, FOMIR I and II partner

Philippines

Agabin, Meliza H., Deputy Chief of Party, Microenterprise Access to Banking Services (MABS).

Alilin, Michael, Asset Management Officer, First Community Cooperative (FICCO), Mindanao

Almedia, Fatima A., Chief Financial Management Services Division, Regional Financial Services Center/Manila

Alvarez, General Mariano, First Macro Bank, Cavite Branch

Andaya, Joseph Omar O., President and Chairman of the Board, Green Bank, Butuan, Mindanao

Angeles, Felino SM. JR., Chief Executive Officer, Rural Bank of Cainta, Mindanao

Arellano, Erlinda, City Branch Manager, FICCO Gingoog City, Mindanao

Aso, Melia, Board of Directors, First Community Cooperative (FICCO), Mindanao

Barnes, Robert F., Economic Growth Advisor, USAID/Philippines

Batallones, Manuel R., Manager, Bankers' Association of the Philippines Credit Bureau, Inc.

Biscocho, Ariel R., Manager, Microfinance Loans, Limcoma Rural Bank, Inc.

Castillo, Nenita R., Loans Manager, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Chua, Cheryl, Marketing Management Officer for Northern Mindanao, CUES

Daquigan, Jason, Manager of Loans and Discounts Department, Rural Bank of Montevista, Mindanao

De Castro, Eduardo, Area Manager for Mindanao, Microenterprise Access to Banking Services (MABS)

Domo-Ong, Wilfredo B., Director, Supervision and Examination Department IV, Bangko Sentral ng Pilipinas

Dy-Liacco, Gil, Program Specialist, USAID/Philippines

Galundez, Eric, Account Officer, First Macro Bank, General Mariano Alvarez, Cavite Branch

Gamolo, Edgardo T., Chairman, Board of Directors, First Community Cooperative (FICCO), Mindanao

Gan, John Maynard, Marketing Management Analyst, CUES

Ganzon, Francis S., Attorney, President, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Ganzon, Tess, Managing Director, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Gener, Teodoro D., General Manager, Automated Systems & Equipment Corp. (ASEC) Soft, Inc.

Glorioso, Senen D., President, Rural Bankers Association of the Philippines (RBAP)

Gonzales, Nemieta, Account Officer, Microfinance Individual Loans, Limcoma Rural Bank, Inc.

Guerra, Joy, Accounts Officer for Microfinance Individual Loans, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Guervarra, Edgel, Account Officer, Microfinance Individual Loans, Limcoma Rural Bank, Inc.

Jacobo, Lorena, Head of Business Development and Marketing, First Macro Bank Corporate Office

Jamshed, Homi, CPA, Financial Controller, USAID/Philippines

Labis, Naciancino, Board of Directors, First Community Cooperative (FICCO), Mindanao

Lichasuco, Hadjie T., Microfinance Supervisor, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Lomboy, Christopher G., Director, Capacity Exchange Services, PUNLA Sa Tao Foundation

Macalang, Jun, Board of Directors, First Community Cooperative (FICCO), Mindanao

Matildo, Mimi, MF Product Head, Rural Bank of Cantilan, Mindanao

Mendiola, Eric, Manager-Loans Department, Rural Bank of Cantilan, Mindanao

Montera, Edla M., President/Chief Executive Officer, Associated Resources for Management and Development, Inc. (ARMDEV)

Ocampo, Reginald, Executive Vice President, First Macro Bank Corporate Office

Olan, Rolando B., Bank Application Software Manager, Automated Systems & Equipment Corp. (ASEC) Soft, Inc.

Oli, Joy, Manager Human Resources Department, Bangko Kabayan (Ibaan Rural Bank, Inc.)

Ortega, Gilbert, Account Officer, First Macro Bank, General Mariano Alvarez, Cavite Branch

Owens, John V. (Attorney), Chief of Party, Microenterprise Access to Banking Services (MABS)

Pascioles, Norlyn, Finance Management Specialist, CUES

Patrimonio, Toti, Chief Accountant, First Community Cooperative (FICCO), Mindanao

Ponce, Cresencia, Vice President for Operations, Rural Bank of Placer, Mindanao

Rana, Vicente, Board of Directors, First Community Cooperative (FICCO), Mindanao

Reynolds, William E. Ph.D., Supervisory Contracts Officer, USAID/Philippines

Richardson, David C., Senior Manager of Technical Development, World Council of Credit Unions, Inc. (WOCCU)

Roman, Pia Bernadette, Microfinance Unit, Bangko Sentral ng Pilipinas

Roque, Florention A., President and CEO, Automated Systems & Equipment Corp. (ASEC) Soft, Inc.

Roxas, Bong, Area Manager, Microenterprise Access to Banking Services (MABS).

Sabado, Laarhi, Branch Manager, First Macro Bank, General Mariano Alvarez, Cavite Branch

Santamarina, Eleanor, Deputy Project Director/Association Specialist, CUES

Sasuman, Luis JR. S., Chief of Party/Project Director, Credit Union Empowerment and Strengthening (CUES – Philippines)

Serrano, Raphael, Microfinance Program Manager, First Macro Bank Corporate Office

Silver, Joan M., Chief, Program Resources Management Office, USAID/Philippines

Tecson, Calito R., President, Limcoma Rural Bank, Inc.

Urbiztondo, Raul, General Manager, Rural Bank of Cantilan, Mindanao

Vertudez, Ronnie, Microfinance Supervisor, First Macro Bank, General Mariano Alvarez, Cavite Branch

Wuertz, Robert E., Chief, Office of Economic Development and Governance, USAID/Philippines

Yates, Michael J., Mission Director, USAID/Philippines

Uganda

Agaba, Kenneth, Business Development Manager, DFCU Group

Baguma, David T., Executive Director, Association of Micro Finance Institutions – Uganda (AMFIU)

Branch, Brian, President and Chief Executive Officer (interim), Chief Operating Officer, World

Council of Credit Unions, Inc.

Byanyima, Charles, Manager, Microfinance Support Centre Ltd. (MSCL)

Carr, Graham D. Q., Director, Aclaim Africa Limited

Crawford, Paul, Team Leader, Sustainable Economic Growth Strategic Objective, USAID/Uganda

Drew, Clive, Managing Director, Agricultural Productivity Enhancement Program (APEP)

Druben, Laurel, Consultant, Strengthening the Competitiveness of Private Enterprise (SCOPE)

Engle, John, Managing Director, Strengthening the Competitiveness of Private Enterprise (SCOPE)

Hansen, Lene M.P., Microfinance Consultant

Jazayeri, Dr. Ahmad, International Development Specialist and Management Consultant

Joram, Karrisa-Kasa, Partner, Mungereza & Kariisa, Certified Public Accountants

Kabatalya, Olive, Rural Finance Specialist, Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)

Kashugyera, Lance, Coordinator, Microfinance Outreach Plan (MOP) Project Coordination Office, Ministry of Finance and Economic Development

Kasi, Fabian, Managing Director, FINCA/Uganda

Katto, Japeth, Capital Market Authority

Kiingi, Liz Regan, Program Officer, USAID/Uganda

Kitakule, Sarah, MSME Coordinator, World Bank/Uganda

Kristalsky, Terri, Managing Director, Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)

Lapp, Roger, Controller, USAID/Uganda

Ledgerwood, Joanna, Consultant, Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)

Levine, Jeffrey, Private Sector Officer, USAID/Uganda

Losse, Karen, Programme Advisor, Financial System Development Programme, Bank of Uganda

Luswata, Paulo, DCA Portfolio/SAF Manager, Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)

Mbonye, Patrick, MSE/MFI Component Manager, Ministry of Finance, Planning and Economic Development

Mbonye, Richard, Lead Consultant, The Consulting Group (TCG)

Milligan, Anne, Strategic Activities Fund Manager, Agricultural Productivity Enhancement Program (APEP)

Mugumya, Stephen Bongonzya, Programme Manager, Microfinance Competence Center (MCC)

Mulyanti, Harriet N., Deputy Chief Executive Officer – Operations, Uganda Finance Trust Ltd. (U-TRUST)

Musoko, Christopher, Coordinator, DFID Financial Sector Deepening Project Uganda (FSDU)

Mutabazi, Henry, Deputy Programme Manager and New Product Development Coordinator, SUFFICE Programme Technical Support Unit

Muumba, John Patrick, Deputy Coordinator, Community Empowerment Through Cooperative Financial Services (CECFIS)

Muyanja, Jimmy, Executive Director, Center for Arbitration and Dispute Resolution (CADER)

Nagwere, Contracts and Grants Specialist, USAID/Uganda

Nalyaali, Charles W., Co-Director, Uganda Microfinance Union (UMU)

Namara, Suleiman, Social Protection Specialist, World Bank/Uganda

Nathu, Samash, Director/CEO, Uganda Crop Industries Ltd.

Ngabirano, Henry, Managing Director, Uganda Coffee Development Agency (UCDA)

Obara, Andrew, Director, Friends Consult

Ocaya, Robert, Rural Finance Specialist, Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)

Ochieng-Obbo, Lydia, Institutional Development Specialist, Strengthening the Competitiveness of Private Enterprise (SCOPE)

Rippey, Paul, Manager, DFID Financial Sector Deepening Project, Uganda (FSDU)

Runnebaum, B.F., Program Manager, PL 480 title II Program Country Representative, ACDI/VOCA

Rutega, Simon S., Chief Executive Officer, Uganda Securities Exchange, Ltd.

Schuster, Rodney, Executive Director, Uganda Microfinance Union (UMU)

Serukka, Priscilla Mirembe., Regional Director, Stromme Foundation East Africa

van Oosterhout, Henk J.J., Programme Manager, SUFFICE Programme Technical Support Unit

Wakhewaya, Jacqueline, Finance and Enterprise Development, USAID/Uganda

Wanendeya, Ida, Board of Directors and founding member, U-TRUST

Washington – Danaux, Elzadia, Deputy Director, USAID/Uganda

Wright, Graham A. N., Programme Director, MicroSave Africa

ANNEX D: UMBRELLA PROGRAM FUNDING DATA

Table 1. Support for Microfinance Through Umbrella Programs	Amount	Percent	Descriptions
Average life-of-project for umbrellas studied	4	n/a	n/a
Average size of umbrellas studied	$14,923,366	n/a	n/a
Total amount of money awarded in umbrella sample	$477,547,790	n/a	n/a
Funding for MF activities through umbrella sample	$187,897,071	39%	of total sample
Umbrella $ awarded through contracts	$368,130,232	77%	of total sample
Umbrella $ awarded through cooperative agreements	$109,417,558	23%	of total sample
Umbrella money led by FPs	$380,897,790	80%	of total sample
Umbrella money led by NFPs	$96,650,000	20%	of total sample
Umbrella $ spent on subgrants	$164,615,662	34%	of total sample
Umbrella $ spent on subcontracts	$61,767,355	13%	of total sample

Table 2. Support for Microfinance Through Microfinance-only Umbrella Programs	Amount	Percent	Descriptions
Funding through microfinance-only umbrellas	$123,050,763	26%	Of total MF umbrella sample
Average size of MF-only umbrella	$7,690,673	n/a	n/a
Average length of MF-only umbrella	4	n/a	n/a
MF-only umbrella $ awarded through contracts	$96,133,205	78%	of total MF-only umbrella $
MF-only umbrella $ awarded through CAs	$26,917,558	22%	of total MF-only umbrella $
MF-only umbrella $ led by FPs	$103,900,763	84%	of total MF-only umbrella $
MF-only umbrella $ led by NFPs	$19,150,000	16%	of total MF-only umbrella $
MF-only umbrella $ spent on subgrants	$27,280,662	22%	of total MF-only umbrella $
MF-only umbrella $ spend on subcontracts	$9,378,710	8%	of total MF-only umbrella $
MF-only umbrella $ spent on subgrants by FPs	$19,590,662	19%	of money, led by FPs
MF-only umbrella $ spent on subcontracts by FPs	$9,378,710	9%	of money, led by FPs
MF-only umbrella $ spent on subgrants by NFPs	$7,690,000	40%	of money, led by NFPs
MF-only umbrella $ spent on subcontracts by NFPs	$0	0%	of money, led by NFPs

Table 3: For-Profit/Not-for-Profit Comparison of Umbrella Programs

For-Profit / Non-Profit Comparison for Microfinance-Only Umbrellas	Amount	Percent	Descriptions
Umbrella money lead by DAI	$43,180,763	41.56%	of amount of MF-only funding led by FPs
Umbrella money lead by Chemonics	$60,720,000	58.44%	of amount of MF-only funding led by FPs
Umbrella money led by other FPs	$0	0.00%	of amount of MF-only funding led by FPs
Total umbrella money led by FPs	$103,900,763	84.44%	of all MF-only Funding
Umbrella money sub-contracted by DAI	$5,378,710	12.46%	of amount of MF-only funding led by DAI
Umbrella money sub-contracted by Chemonics	$4,000,000	6.59%	of amount of MF-only funding led by Chemonics
Umbrella money sub-contracted by other FPs	$0	0.00%	of amount of MF-only funding led by other FPs
Total umbrella money sub-contracted by FPs	$9,378,710	9.03%	of amount of MF-only funding led by all FPs
Umbrella money sub-granted by DAI	$6,891,314	15.96%	of amount of MF-only funding led by DAI
Umbrella money sub-granted by Chemonics	$12,699,348	20.91%	of amount of MF-only funding led by Chemonics
Umbrella money sub-granted by other FPs	$0	0.00%	of amount of MF-only funding led by other FPs
Total umbrella money sub-granted by FPs	$19,590,662	18.86%	of amount of MF-only funding led by all FPs
Umbrella money led by ACDI/VOCA	$11,900,000	62.14%	of amount of MF-only funding led by all NFPs
Umbrella money led by WOCCU	$7,250,000	37.86%	of amount of MF-only funding led by all NFPs
Umbrella money led by other NFPs	$0	0.00%	of amount of MF-only funding led by all NFPs
Total umbrella money led by NFPs	$19,150,000	15.56%	of all MF-only Funding
Umbrella money sub-contracted by ACDI/VOCA	$0	0.00%	of amount of MF-only funding led by ACDI/VOCA
Umbrella money sub-contracted by WOCCU	$0	0.00%	of amount of MF-only funding led by WOCCU
Umbrella money sub-contracted by other NFPs	$0	0.00%	of amount of MF-only funding led by other NFPs
Total umbrella money sub-contracted by NFPs	$0	0.00%	of amount of MF-only funding led by all NFPs
Umbrella money sub-granted by ACDI/VOCA	$7,690,000	64.62%	of amount of MF-only funding led by ACDI/VOCA
Umbrella money sub-granted by WOCCU	$0	0.00%	of amount of MF-only funding led by WOCCU
Umbrella money sub-granted by other NFPs	$0	0.00%	of amount of MF-only funding led by other NFPs
Total umbrella money sub-granted by NFPs	$7,690,000	40.16%	of amount of MF-only funding led by all NFPs

ANNEX E: CASE STUDIES

Case Study: USAID/Azerbaijan

The Azerbaijan Humanitarian Assistance Program (AHAP) was implemented from 1998 to 2005 through a cooperative agreement to Mercy Corps International (MCI), an international nongovernmental organization (NGO). Although microfinance activities represented only a small percentage of AHAP's total programming, USAID/Azerbaijan and AHAP were selected by USAID's Microenterprise Development office (MD) as one of the principle case studies for the following reasons:

- USAID/Azerbaijan's status as a Mission with a small staff and few direct U.S. hires, charged with managing a complex portfolio, including several umbrella programs
- The Mission's desire to achieve two very different objectives at the same time: reduce suffering in Azerbaijan's conflict-affected areas while accelerating small enterprise growth in targeted areas
- AHAP's example as an umbrella program directly supporting creation of two microfinance institutions (MFI) and operating in an immature microfinance market, with little in the way of microfinance lending and services at the time of project start up
- AHAP's relatively lengthy duration of implementation (seven years), which allows for effective longitudinal tracking of activities and results

I. Mission Profile

USAID/Azerbaijan manages its own bilateral program, averaging approximately $30 million per year, but its resident staff is relatively small – three U.S. direct hires (USDH), three U.S. personal service contractors (PSC), one third country national procurement specialist (TCN), and a number of foreign service nationals (FSN). It has a subordinate relationship to the Regional Caucasus Mission in Tblisi, Georgia, and the Mission's Controller, Contract Officer, and Legal Advisor are resident in Tbilisi. While there is no perfectly representative Mission, USAID/Azerbaijan is a good example of a small USAID Mission managing a large portfolio of programs. Over the years, the primary focus of its programs has shifted from the delivery of humanitarian assistance to internally displaced persons (IDPs), to the achievement of longer-term economic and social development objectives.

Even before the arrival of Mission staff in 1998, USAID funded umbrella programs to meet its objectives in Azerbaijan. U.S. humanitarian assistance began in 1992 with the delivery of food and other relief commodities targeted to IDPs, the civilian victims of Azerbaijan's military action with neighboring Armenia over Nagorno-Karabakh. As the result of the war – and Azerbaijan's and Turkey's economic blockade of Armenia – the U.S. Congress barred USAID from directly engaging the Government of Azerbaijan (GOAJ) through Section 907 of the Freedom Support Act.

> **Box1. Loan Projects**
> **"Working as Planned"**
>
> "Loan projects conducted by SC in the Central region of the IDP belt and by ADRA in Naxçivan appeared to have supported borrower enterprises with relatively few failures, as estimated by the Evaluation Team...The conclusion from Evaluation Team visits to these Partner selected sites is that the loan projects were working as planned."

USAID/Azerbaijan had two credit-related strategic objectives during that era: Strategic Objective (S.O.) 3.1, Reduced Human Suffering in Conflict Affected Areas, and S.O. 1.3, Accelerated Development and Growth of Private and Small Enterprises in Targeted Areas. AHAP was designed to meet the objectives of S.O. 3.1.

Additional microfinance programs, implemented by Shorebank, FINCA, and ACDI/VOCA, were funded to directly address S.O. 1.3.

USAID's first efforts in Azerbaijan were implemented through an umbrella program, administered by Save the Children (SC), which combined relief commodities with technical assistance targeting IDPs. In 1997, with the IDP situation a continued issue and Section 907 restrictions still in effect, the USAID Regional Mission in Yerevan designed a second umbrella program. The resulting effort, the Azerbaijan Humanitarian Assistance Program (AHAP), aimed to continue SC's work by assisting IDPs in meeting basic needs.

At the time AHAP was launched in 1998, the Mission's primary objective was still the provision of humanitarian assistance to refugees and IDPs affected by the Nagorno-Karabakh conflict. Not surprisingly the main focus of AHAP was also humanitarian assistance, with the program serving as the major vehicle for Mission-funded humanitarian assistance programming. Indeed, through AHAP, USAID/Azerbaijan distributed $57 million between 1998 and 2005; over the same period, the Mission's total humanitarian assistance budget amounted to some $70 million. Only a small portion of those funds – $1.6 million in loan capital – supported microfinance activities. Although small in scale, AHAP's initial foray into the microfinance arena earned high marks in a 2002 evaluation of the Mission's S.O. 3.1 activities, as highlighted in Box 1.

From 1998 to 2005, under S.O. 1.3, the Mission's economic development program initiated projects to stimulate Azerbaijan's nascent private sector by focusing on small and medium enterprise (SME) and agribusiness development, training, and related areas. Microfinance and SME lending programs were key components of the overall strategy. Over time, both MFIs supported by AHAP found that IDPs were not a good target market for building sustainable lending institutions, an objective that moved to the fore as the industry became more competitive. As such, although IDPs were not excluded from lending operations, they were ultimately not targeted as clients.[18]

USAID/Azerbaijan's economic growth budget has averaged approximately $10 million per year since 1998. As the Mission added USDH and PSC staff resident in Baku, it began to develop single-purpose programs; however, these activities have remained modest due to the continued limited size of the Mission's workforce. Table 1 on the following page depicts major USAID/Azerbaijan microfinance assistance programs between 1998 and 2006.

II. The Microfinance Market in Azerbaijan

The microfinance market in Azerbaijan evolved rapidly over the course of AHAP implementation. Very few MFIs were operating in 1998, particularly in the IDP belt, AHAP's target area. Over time, a substantial increase in the number of participants led to enhanced market maturity and created new needs. USAID's funding simultaneously mirrored and advanced this progression, establishing organizations to build the market in the early stages, then shifting to support for institutions as the market grew.

MD has analyzed the evolution of AHAP on micro, meso, and macro levels, using a financial-systems approach. The micro level relates to retail-lending operations, with an emphasis on demand and supply, outreach, and products and services offered by MFIs. The meso level is defined as work with supporting infrastructure, including service providers, rating agencies, trade associations, professional networks, credit bureaus, transfer and payments systems, and information technology. The macro level corresponds to the legal and regulatory environment for microfinance.

---

[18] Barnes, Carolyn, and Gurbanali Aleperov, "Evaluation of Micro and SME Credit Activities in Azerbaijan," prepared by Management Systems International (MSI) for USAID/Azerbaijan, August 2003.

Micro Level

AHAP activities focused predominately at the micro level by supporting existing and establishing new microfinance retail outlets. Through AHAP, MCI provided loan capital and funds for operational costs. International members of the nongovernmental organization (NGO) community supported by AHAP started micro-credit activities as an extension of humanitarian assistance programs. Programs initially targeted the thousands of IDPs who had become refugees as a result of the Nagorno-Karabakh conflict. Over time microfinance programs broadened the target market to include IDPs, refugees, and other surrounding populations in Azerbaijan's IDP belt. For most people living in the area, these NGO-initiated microfinance projects were the only available source of financing during the program's early years.

Table 1: USAID/Azerbaijan Major Microfinance Assistance Programs 1998-2006

Years	Program	Mechanism	Design Type	Implementer	Focus
1998-2005	AHAP	Cooperative Agreement	Umbrella	Mercy Corps	Help IDPs and affected communities access health care and agricultural assistance; assist supporting long-term economic development; fund establishment of two locally registered MFIs
N/A	Shorebank	Cooperative Agreement	Single-purpose	Shorebank	Technical assistance to local banks and SME lending
1998-2005	FINCA	Cooperative Agreement	Single-purpose	FINCA	Financial services to the poor through a group-lending methodology
2000-2005	Azeri Rural Credit	Cooperative Agreement	Single-purpose	ACDI/VOCA	Provide working capital and investment loans for commercial SME rural enterprises in agricultural production, processing, and agribusiness
2005-2008	SME Support Through Financial Services Development	Cooperative Agreement	Umbrella	ACDI/VOCA	Support to meso and macro levels of the microfinance sector

AHAP's microfinance activities mainly supported ADRA and Save the Children's microfinance programs through the life of the project. A closer look at the two operations and their growth under the program:

ADRA initiated microfinance operations in Naxçivan in 1999 under AHAP I and received subsequent grants under AHAP II to continue its lending operations. (Naxçivan is an autonomous region of Azerbaijan separated from the mainland.) Registered and licensed with the Ministry of Justice as a non-bank credit organization and limited liability company, ADRA Kredit LLC is predominately staffed and managed by Muslim women. The organization targets Naxçivan's most vulnerable communities, including IDPs and refugees, offering group loans to agricultural and small enterprises in rural areas. It currently offers five products: agricultural support loans ($300 to $1,500), trade support loans ($300 to $1,500), SME loans ($1,000 to $10,000), individual loans ($100 to $1,000), and emergency loans ($50 to $300).[19] ADRA Kredit had

[19] Burbank, Kershaw Jr. "ADRA Kredit Microfinance Evaluation, AHAP II Microfinance Program," September 2004.

reached and sustained operational sustainability for 10 of the 12 months prior to June 2004. With 2,394 active clients, the organization had an outstanding loan portfolio of $944, 116 as of September 2005.[20]

Save the Children (SC) began the Community-Based Lending and Saving Program (CBLS) in the central region of the IDP belt in 1998 under AHAP I and received subsequent funding under AHAP II. Loans are provided to individuals as well as to lending groups, mainly for agricultural and trade activities. In 2003, SC legally registered Azeri Star, a local microfinance institution that offers three loan products: group livestock loans ($140 to $300), group business loans ($120 to $300), and individual loans ($300 to $2,000). It has continued to expand its lending operations over the last three years, despite increased competition from at least six other MFIs actively lending in Azeri Star's targeted region. In May 2004, Azeri Star attained operational self-sufficiency (110 percent) and was close to attaining financial self sufficiency (85 to 95 percent).

In addition to grants provided by AHAP to ADRA and Save the Children, USAID/Azerbaijan supported development of microfinance and banking in Azerbaijan by directly funding three cooperative agreements with Shorebank, FINCA, and ACDI/VOCA. Each program was funded under Strategic Objective 1.3, Accelerated Development and Growth of Private Small and Medium Enterprises in Targeted Areas:

Shorebank established Shore Overseas Azerbaijan and provides loans to SMEs and individuals in Baku and Sumqayit. Loans range from $1,000 to $10,000. It also introduced mortgage-lending products and raised capital from non-USAID sources for on-lending.

FINCA initiated a microfinance program in Ímişli and established FINCA Azerbaijan. Its main loan product is group-guaranteed loans for trade and service microentrepreneurs, mostly located in Baku. Loans range from $80 to $850.

ACDI/VOCA is implementing an agricultural credit program and established CredAgro, an Azeri non-bank financial institution. CredAgro provides working capital and investment loans for SME rural enterprises, primarily focused on agricultural production, processing, and agribusiness.

Management Systems International's (MSI) evaluation of USAID/Azerbaijan's microenterprise and SME credit portfolio in 2004 found that credit programs operating in Azerbaijan represent a "continuum of credit options that meet a range of market demands." The evaluation observed that Azeri Star was at the low end of the market, generally providing loans of $100 to $300 for up to six months. ADRA fell in the middle, providing agricultural and trade loans from $200 to $1,000; FINCA and CredAgro also occupied middle-market niches. Meanwhile Shorebank had carved out a place for itself at the top end of the market. [21]

Box 2. SME Development Through Financial Sector Development

The new USAID/Azerbaijan microfinance umbrella program is designed to carry out the following tasks:

1. Advise the Azerbaijan Bank Training Center in curriculum and course development and the pursuit of accreditation by and affiliation with Western (North American or European) institutions of higher learning as a means to enhance the skills of the industry's workforce.
2. Contribute to the development of the nascent Azerbaijan Microfinance Association to support and advocate for its members' interests and common objectives.
3. Provide expert assistance to stakeholders on the issue of the legal and regulatory environment in which non-bank lending institutions (such as AMFA's members) operate.
4. Assist the GOAJ and the development community in assessing constraints to the financial sector's development and coordination of efforts to abate these constraints.
5. Develop a credit-enhancement facility through the Development Credit Authority to help micro- and SME-finance companies raise capital for onward lending.

---

[20] Azerbaijan Microfinance Association.

[21] Barnes, Carolyn, and Gurbanali Aleperov, "Evaluation of Micro and SME Credit Activities in Azerbaijan," prepared by Management Systems International (MSI) for USAID/Azerbaijan, August 2003.

Meso and Macro Levels

Although the microfinance support industry in Azerbaijan is still relatively undeveloped, meso- and macro-level institutions have begun forming to support the MFI community. As previously noted, AHAP was not designed to serve as a tool for developing support service institutions or address macro-level policy issues. Nonetheless, its support to MFIs over the last seven years has indirectly contributed to the creation of meso-level institutions like the Azerbaijan Microfinance Association (AMFA). AMFA is a nascent institution representing the interests of non-bank institutions, including micro and SME lending institutions. Working to strengthen the capacity of member MFIs and promote effective collective action to advance the interests of the Azerbaijan microfinance community, AMFA has had a positive effect on advocacy, public relations, transparency, and information exchange. The organization, which is considering offering its own training courses, is being directly supported by USAID/Azerbaijan through its latest umbrella program, SME Development through Financial Sector Development.

As described in Box 2, the SME Development through Financial Sector Development umbrella program is a three-year initiative to support the meso and macro levels of Azerbaijan's microfinance sector. It is designed to support the microfinance community by strengthening existing microfinance-support institutions, with the goal of ultimately weaning USAID-supported MFIs from donor subsidies and direct technical assistance. Managed by ACDI/VOCA, the project runs from 2005 to 2008.

III. AHAP Project Profile and Umbrella Design

Designed to address the urgent humanitarian crisis that resulted from the Nagorno-Karabakh conflict, AHAP was a seven-year activity implemented via a cooperative agreement to Mercy Corps International (MCI); the program was initiated in January 1998 and scheduled to end in December 2005. As "prime" umbrella manager, MCI was charged with overall program management, coordinating the work of many subgrantees in a host of sectors, including economic opportunities, health, shelter, integrated village development, social investment initiatives, and integrated community development.

As previously noted USAID staffing in Baku was minimal at the time of AHAP's design in 1997, with only two USAID FSNs and insufficient USAID personnel to oversee a large humanitarian relief activity. In light of its spare staffing, the Mission decided it needed an entity experienced in humanitarian relief to manage the activity on its behalf. Consulting with USAID, MCI designed the scope of work and issued a request for applications (RFA). With USAID concurrence, subgrants were awarded and then monitored against performance objectives. MCI was barred from taking an implementation role, a measure taken to reduce or eliminate potential conflicts of interest.

The program was administered in two phases. AHAP I was a two-year, $17 million program with 10 international partners and 16 subgrants providing assistance in the following sectors: shelter, health and nutrition, information, economic opportunities, and a pilot integrated community development program. A greater focus on longer-term development occurred with the implementation of AHAP II in 2000. The change in strategy emphasized integration of economic opportunities, community development, health, and social investment fund program activities. While the vast majority of the IDP population at the time still faced deplorable conditions, the humanitarian crisis had stabilized by 2000 and the immediate needs of IDPs had largely been met.

Table 2: Microfinance Programs Supported by AHAP I and II Grants

AHAP I		
Implementing Partner	**Program Title**	**Period of Implementation**
ADRA	Naxçivan Enterprise Development Program	February 1999 – October 2000
AHAP II		
Implementing Partner	**Program Title**	**Period of Implementation**
ADRA	Naxçivan Enterprise Development Program	November 2000 – September 2005
Save the Children	Community Based Lending and Savings Program	June 2000 – September 2005

In contrast to the previous umbrella Save the Children-implemented activity with its humanitarian relief-centered objectives, AHAP II signaled a shift in emphasis and a greater focus on sustainable development. A six-year program with eight international partners, AHAP II has provided assistance in the following areas: primary health care, community development, economic opportunities, reproductive health, and integrated community development.[22]

The program supported microfinance activities under both AHAP I and II under the economic opportunities component of the program. AHAP I contributed $1.3 million to support micro-credit, agricultural and business training, training of trainers, community-organization formation, and agricultural production inputs in 15 regions across Azerbaijan's IDP belt. Under AHAP II, the program's economic opportunity component emphasized the creation of employment opportunities by stimulating agricultural microfinance and small business development, targeting a broader group of beneficiaries, including IDPs, refugees, and surrounding local populations. In the area of microenterprise and small and medium enterprise development, AHAP II worked to build the capacity and sustainability of start-up enterprises, and foster establishment of viable, competitive business development support organizations.[23] Table 2 lists microfinance programs supported through grants under AHAP I and II.

Box 3. The Umbrella Mechanism's Role as Implementing Vehicle and Management Tool Under AHAP

"To date, the umbrella has been an extremely effective management tool for USAID/Azerbaijan, and one USAID individual was assigned the responsibility for internal management. The umbrella has yielded a high quality and relevant program. It has the subsidiary benefit of allowing for a broad mix of organizations to operate in Azerbaijan through its effective process of subgrantee RFAs, more so than may have been possible had USAID been managing all of the S.O. 3.1 activities directly. In addition, and very importantly, the umbrella has fostered a unique level of coordination. The shared cultures of the PVO Mercy Corps and its PVO subgrantees have yielded positive results that a for-profit umbrella manager would be unlikely to duplicate easily."

Evaluation of Strategic Objective 3.1, USAID Humanitarian Assistance in Conflict-Affected Areas in Azerbaijan, MSI/MetaMetrics, Inc., December 7, 2002

Over the life of the program, AHAP and the USAID/Azerbaijan credit program portfolio were evaluated numerous times: MSI evaluated the Mission's humanitarian assistance activities in 2002, and evaluated micro and SME credit activities in Azerbaijan in 2003; subsequent evaluations were completed of both ADRA Kredit and Azeri Star (Save the Children) in 2004. A 2002 evaluation, described in Box 3, found that the program's umbrella design had served as an effective management tool for the Mission's support of

[22] AHAP report, 2005.

[23] AHAP report, 2005.

microfinance activities. Subsequent evaluations came to a similar conclusion regarding the umbrella mechanism's value as an implementation vehicle for AHAP.

Although constrained by Section 907, MCI interacted with the GOAJ on behalf of NGOs and MFIs to help resolve government policy constraints facing MFIs. AHAP program evaluations noted the positive working relationship between Mercy Corps and its subgrantees. Evaluations also observed MCI's ability to successfully leverage its previous experience in microfinance legal and regulatory issues to assume a key role in advising participating MFIs on legal and regulatory issues, with a potential impact on their operations.

IV. Cost Profile

From 1998 to 2005 USAID obligated a total of $56.9 million to Mercy Corps International for AHAP I and II. AHAP I, a two-year program totaling $17 million, supported 10 international partners and 16 subgrants. A total of $1.3 million was provided for economic opportunity programs from 1999 to 2000, including ADRA's microfinance activities. AHAP II, a six-year program, totaled $40 million and involved eight international partners. The Mission spent $5 million on economic opportunity activities during this time period, including the ADRA and SC microfinance programs.

Table 3: 2002-2005 Portfolio Information for ADRA and Azeri Star

MFI	Number Of Clients					Cumulative Loans Disbursed				Portfolio Outstanding			
	2002	2003	2004	2005	% Change 2002-05	**2003**	**2004**	**2005**	**% Change 2002-05**	**2003**	**2004**	**2005**	**% Change 2002-05**
ADRA	1,439	2,907	2,592	2,394	66.37%	$2,610,510	$4,039,665	$4,207,194	61.16%	$829,222	$999,133	$944,116	13.86%
Azeri Star	1,417	2,910	3,755	3,655	157.94&	$2,640,655	$4,182,000	$5,509,244	108.63%	$400,491	$525,450	$472,028	17.86%

Over the life of project of AHAP I and II, a total of $1.6 million was provided for loan capital to ADRA Kredit and Azeri Star. The two organizations are members of the Azerbaijan Microfinance Association (AMFA) and have reported portfolio information to AMFA on a quarterly basis. Table 3 contains ADRA Kredit and Azeri Star portfolio information related to the organizations' operations from 2002 to 2005, providing a context for judging the efficiency of use of USAID-sourced loan capital.

V. Case Study Lessons Relevant to Study Hypothesis

AHAP is particularly relevant for the Umbrella Program Study due to its role in stimulating the microfinance market. It is a good example of how an umbrella program can play a critical role in suporting financial market recovery in post-conflict situations by assisting nascent and start-up microfinance operations. It also underscores that umbrellas can serve as valuable funding mechanisms for USAID missions that are reducing management units or face greater programming responsibilities without an equivalent increase in human resources. Through the AHAP umbrella contracting mechanism, USAID/Azerbaijan was able to run programs well beyond the scope of what the Mission's internal capacity would have permitted had it relied on single-purpose contracts or grants. The AHAP case study provides the umbrella study with several notable lessons, summarized below:

Prioritize flexibility and market responsiveness in design. AHAP microfinance activities were unusual in having been designed to support IDPs in conflict-affected regions. With its humanitarian focus and IDP target clientele, the program's initial emphasis was on goals other than institutional sustainability. This changed by the time of

AHAP II: Having discovered the difficulties of building a sustainable microfinance institution based on an IDP clientele, ADRA Kredit and Azeri Star began the transition from humanitarian assistance to more sustainable development activities by broadening the target market for their products. While the groups did not exclude IDPs from lending operations, they began to lend to other clients within the IDP belt.[24] While there is no evidence that the use of the umbrella mechanism actually *produced* such flexibility, it does appear that the use of the umbrella vehicle for AHAP *facilitated* the change process and allowed needed space for the Mission to evolve its objectives and methods in response to changing circumstances.

Provide long-term support to MFIs in immature markets. AHAP's initial focus on IDP lending and the relative immaturity of the microfinance market in the early stages of implementation made it essential for AHAP to support ADRA Kredit and Azeri Star for longer than anticipated. The longer time horizon of support worked well: ADRA Kredit and Azeri Star are stronger institutions as a result, better able to successfully compete with the recent influx of entrants into the microfinance market. Together with three microfinance institutions directly funded by USAID, the two AHAP-supported MFIs formed the base of an emerging microfinance industry in Azerbaijan, facilitating collaboration and coordination among all USAID-funded MFIs.

Encourage competition, along with market-based lending products and performance measurement tools. MFIs working with FINCA, Shorebank, and ACDI/VOCA had sustainability as an objective from program launch. USAID's support of these additional MFIs forced AHAP-supported MFIs to strive for sustainability, including the introduction of market-based lending products as the new MFIs competed for the same target market and client base. The market's increased vitality is underscored by the fact that these MFIs, along with more recent market entrants, are exploring tools like benchmarking to gauge their performance relative to one another and against international microfinance standards. By encouraging competition, the Mission helped USAID-supported institutions deal with the realities of the marketplace, further strengthening Azerbaijan's microfinance market.

Favor contracting modalities and partnerships that support integration and collaboration. Evaluations of AHAP have found a high level of collaboration between MCI and subgrantees. For example, in its 2002 evaluation report, MSI noted the following: "The most striking and most valuable aspect of the AHAP umbrella – and of Mercy Corps' management – is the atmosphere of collaboration and cooperation that exists among the Partner organizations. It is rarely found in such degree and greatly increases the impact and effectiveness of the AHAP Partnership." AHAP demonstrated that NGOs can be effective umbrella managers. It also suggested that these groups may be well-placed to use their understanding of PVO culture to build coordination and facilitate integration among PVO-funded activities within a community. In the case of AHAP, enhanced partner collaboration meant that microfinance activities were not working in a vacuum, but rather played complementary roles as part of a larger effort to support communities and IDPs in targeted regions.

VI. Conclusion

AHAP provides evidence that umbrella programs can support a nascent industry and start-up microfinance activities. It demonstrates that a well-managed umbrella program can serve as a good vehicle for knowledge sharing and cooperation across activities and donors, and can be a more appropriate tool for a staff-short mission than a series of single-purpose projects. Such an advantage is very much a function of the presence of a strong COP who knows how to manage a diverse set of partners, influence stakeholders, work with government, and satisfy USAID's requirements. The consensus among AHAP subgrantees was that MCI did a good job sharing, integrating, and coordinating knowledge management through MCI-organized sectoral

[24] Barnes, Carolyn, and Gurbanali Aleperov, "Evaluation of Micro and SME Credit Activities in Azerbaijan," prepared by Management Systems International (MSI) for USAID/Azerbaijan, August 2003.

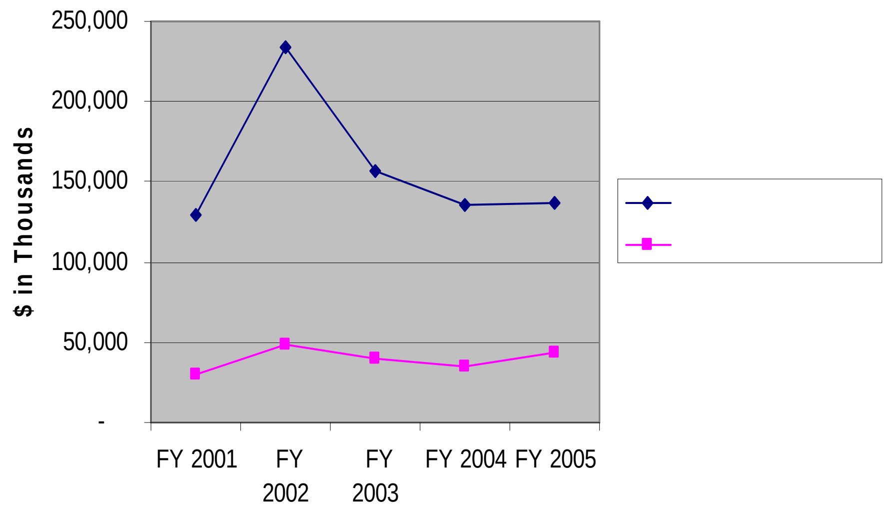
meetings, the publication of a national newsletter and the AHAP bulletin, and national-level conferences, including the 2001 Microfinance Conference. Whether AHAP would have been equally effective under the management of another organization or a different COP is, of course, an unanswered question. From a design perspective, AHAP suggests that Missions may want to consider the option of clearly separating the role of implementing partners that provide technical assistance from the role of the lead organization or firm serving as program manager. Such a strategy can address and even eliminate some of the concerns traditionally associated with umbrella programs. In the case of AHAP USAID/Azerbaijan responded to partners' concerns regarding potential conflicts of interest by prohibiting MCI from providing direct technical assistance under the program, as well as from competing for additional business in Azerbaijan.

Case Study: USAID/Central Asian Republics

I. Mission Profile

USAID/Central Asian Republic (CAR) is a regional mission with overall strategic and program responsibility for the five Central Asian Republics: Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, and Turkmenistan.[25] The Mission's headquarters is located in Almaty, Kazakhstan. USAID/CAR was established in 2001 to address issues of regional importance, including improving the regional trade environment, strengthening water and energy management, supporting ecological stability, and reducing trans-border transmission of diseases, including HIV/AIDS and TB. In addition to regional issues, USAID/CAR is increasingly collaborating with USAID/Afghanistan to determine how specific programs in Afghanistan can be coordinated across borders into the Central Asian Republics. USAID/CAR's efforts complement those of individual USAID Missions in the Central Asian Republics by allowing for closer coordination and the ability to expand country programs supporting regional activities.

Box 1: Funding for USAID/CAR FY 2001 - 2005



In 2005, USAID/CAR invested close to $44 million in economic reform activities out of a total regional budget of $136.3 million.. Since 2001, total funding levels for USAID/CAR have averaged $158 million per year, with an average of $39 million in economic funding. In FY 2002 the Mission's budget spiked to $233.7 million because of the strategic geopolitical position of the region after 9/11. In September 2002, the CAR Regional Mission had 134 non-program personnel. Since then the workforce has grown to a total of 149 in 2005 despite declining funding levels. At the time the case study was written, the Mission's 2006 projections saw the total number of non-program staff declining to 146. Box 1 shows USAID/CAR funding since 1998.

II. Microfinance Market in the Central Asian Republics

Across the four Central Asian Republics, retail-level microfinance institutions (MFIs) can be divided into three broad categories: first, the top 5 percent, which are strong performers with international partners; next,

[25] USAID/CAR did not include Turkmenistan in the Central Asia Micro Finance Alliance (CAMFA) project.

the middle 45 percent, which vary in performance and capacity but have reasonable potential for growth; and third, the bottom 50 percent, which are generally small and have little institutional capacity or outside support. Among CAMFA's partners, approximately 28 percent were considered mature, 55 percent developing, and 17 percent infant MFIs.

Throughout the region there is limited support at the meso level of the microfinance sector: for instance, Central Asia lacks effective, widely used credit bureaus and has no general system for rating credit. Moreover, prior to CAMFA's intervention, there were no regionally based wholesale lenders and local access to capital for on-lending was sparse, especially for MFIs not affiliated with international networks. Meso-level support organizations, including microfinance associations, are mostly nascent and still require significant capacity-building support. Apart from Kazakhstan, most financial markets in the Central Asian Republics are shallow. Legal and regulatory environments in the region vary significantly in terms of support provided for microfinance. USAID has supported the development of legal and regulatory environments in all four countries through other projects, with significant strides made in Kazakhstan, Tajikistan, and the Kyrgyz Republic in fostering a more level playing field for MFIs. As overviewed below, each republic has a unique macro-level microfinance environment.

Kazakhstan has a population of 15 million and a gross national income (GNI) of $33.8 billion, translating into a per capita national income of $2,260, the highest in the region. Most of its economic growth has been concentrated among large firms in the energy and metals sectors, while the non-oil and micro and small enterprise (MSE) sectors remain underdeveloped. Kazakhstan has the region's largest banks, several of which have expanded into the Kyrgyz financial services market. Because of the important size of Kazakhstan's commercial banking sector, the government has pursued a risk-based approach to supervision and has stepped back from over-regulation of the microfinance industry. One advantage of this is that MFIs are no longer required to register with the National Bank of the Republic of Kazakhstan (NBRK). One challenge this poses for MFIs is the growing interest of commercial banks in drawing away their larger and more successful clients.

Kyrgyz Republic. As the Kyrgyz economy continues through its restructuring process, enterprise growth has been led by small firms, especially in the agriculture sector. Most of Kyrgyzstan's 5.1 million people are involved in agriculture, which constitutes a significant portion of the country's $2.1 billion GNI and $400 per capita national income. Kyrgyzstan's commercial banking is concentrated in the capital city of Bishkek, with branch offices in the neighboring Chui region and the southern capital of Osh. Outside of these population centers, the gap in commercial banking services is filled by MFIs. Kyrgyzstan hosts the largest MFI portfolios in the region. To support these MFIs, Kyrgyzstan has enacted the region's most progressive and comprehensive MFI legislation and the National Bank has actively supported non-bank financial services. In 2002, Kazakhstan's largest banks, Kazkommertz Bank and Temir Bank, purchased controlling shares of Kyrgyz commercial banks. Their entrance into the market reflects the attractiveness of Kyrgyzstan to Kazakh investors and the underlying potential for economic growth in the country.

Tajikistan. While slowly emerging from a six-year civil war, Tajikistan is still trying to repair the significant damage cause by the conflict to the country's economic and political stability. With a GNI of $1.8 billion, Tajikistan's population of 6.4 million has the lowest per capita income level in the region, at $280 a year. Bank investments are fairly limited and carry high interest rates. MFIs have stepped into the gap, providing financing for the nation's rural poor and small businesses. A new microfinance law (modeled on Kyrgyzstan's progressive microfinance legislation) has been passed, and the Ministry of Justice recently announced that it was prepared to certify MFIs that have registered under this law.

Uzbekistan. The most populous nation in the region, Uzbekistan has been a somewhat reluctant participant in the global economy. With a population of 25.9 million, Uzbekistan's $11.9 billion GNI translates into the second highest per capita GNI in the region, at $460 a year. Government bureaucracy is interventionist and stifles enterprise initiative, imposing such restrictions on the financial sector as regulations on interest and exchange rates. Harassment and public corruption remain endemic, resulting in an enabling environment neither conducive to domestic or foreign investment nor to development of the formal financial sector. The legal and regulatory environment for non-bank financial institutions (NBFIs) is poorly defined, and beyond a credit union law, there is little legal support for microfinance. A government resolution approving a range of development activities, including microfinance, lists those NGOs (ACDI/VOCA, FINCA, and a few others) that have been approved to work in Uzbekistan. An amendment to this resolution has been submitted to the Ministry of Justice, which, if approved, would ease restrictions on organizations permitted to practice microfinance in the country.

III. Umbrella and Program Profile

Umbrella design. The importance of the Central Asian Republics to U.S. foreign policy increased dramatically in the wake of the attacks of 9/11. Significant economic development funding was earmarked for the CAR in FY 2002, with the goal of supporting stability in the region. To access these resources and assist the government in its goal of promoting economic growth, two U.S. not-for-profits already active in the region – ACDI/VOCA and FINCA – submitted unsolicited proposals to the CAR Mission for microfinance-focused projects. The Mission responded with interest, but asked that the proposals be combined into one larger umbrella cooperative agreement to facilitate program management and to ensure program benefits reach as many organizations, on as many levels, as possible. The merger of the two proposals became the design framework for CAMFA. As the prime implementing organization of CAMFA, ACDI/VOCA was assigned responsibility for all aspects of management and administration of the umbrella program.

Program profile. The Central Asia Microfinance Alliance (CAMFA) offers a broad range of assistance to MFIs to strengthen existing lending organizations and create new lending entities in underserved areas of Central Asia, with the goal of creating a sustainable network of lending institutions throughout the region. As overviewed in Table 1, CAMFA has three main activities:

Table 1. Program Profile

Mission/Country	Central Asian Republics
Project name	Central Asia Microfinance Alliance
Geographic coverage	Southeastern Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan
Procurement vehicle	Cooperative agreement
Implementing organization	ACDI/VOCA
Project duration	4 years (FY 2002 through FY 2006)
LOP budget	$12.3 million
Strategic objective	S.O. 1.3
# of direct hires in S.O.	3
S.O. budget	$170,000 in 2005
# of LT expatriate personnel	2
Subcontractors/recipients	FINCA International and 19 local partners, including KLF, Frontiers, and 17 local MFIs; 3 associations
Amount subcontracted	$7.17 million
Types of institutional beneficiaries	International and local NGOs; wholesale lender
Number of institutional beneficiaries	29
Amount granted to retail	$30.61 million

- Strengthening smaller local MFIs through the provision of grants and technical assistance
- Establishing a sustainable regional MFI wholesale lending institution (Frontiers)
- Providing grants to large internationally affiliated MFIs (FINCA and KLF)

Based in Uzbekistan, CAMFA works on a regional level with microfinance organizations, credit unions, agricultural support organizations, and other lending organizations that seek to create employment and alleviate poverty. It provides specialized technical assistance, financing for management information systems (MIS) and accounting software, support for attending local and international training, lending capital, and best practice microfinance resources. CAMFA organizes an annual conference for the NGO and MFI communities, bringing together regional practitioners to discuss common challenges and best practices. The program includes the following features:

Retail-level training and technical assistance. To be accredited by CAMFA, an MFI must be committed to implementing a financially self-sufficient lending program with a business-oriented approach to providing loans and training. Once an MFI is accredited as a candidate for support, CAMFA sends out a small team to conduct a multiday diagnostic. Working with the MFI, CAMFA customizes an institutional development plan, including pre-conditions for assistance. Once the action plan is agreed to, the MFI becomes a CAMFA partner, with the action plan and performance targets serving as the working agreement between CAMFA and the MFI. Partners are required to provide monthly and annual reports to CAMFA and their successful performance against targets is a condition for future assistance. While most of CAMFA's support for partners comes in the form of technical assistance, cash mini-grants are also available to local partners for the purchase of office equipment and supplies and MIS and accounting systems. CAMFA also coordinates with the Microfinance Center's CAR Regional Office and other partners to ensure its partners benefit from a full range of support.

CAMFA has provided cash grants totaling more than a quarter of its budget to two participating international NGOs: ACDI/VOCA and FINCA. With grant funds FINCA has created start-up affiliate lending programs in Tajikistan and Uzbekistan and financed the transformation of its Kyrgyz Republic affiliate into a commercial lending institution. ACDI/VOCA has used grant funds to support the expansion of its local partner, the Kazakhstan Loan Fund (KLF), allowing it to open two new local offices.

Meso-level support to the microfinance market. In addition to supporting individual MFIs, CAMFA, through a grant to ACDI/VOCA, has funded the creation of a meso-level wholesale lending institution. The grant for capital and operating expenses for the new institution totaled 28 percent of CAMFA's budget. Based in Kyrgyzstan, Frontiers provides commercial loans to MFIs across the region and became operationally sustainable as a wholesale lending institution in the 3rd quarter of 2005. Frontiers is managed by ACDI/VOCA as a legal entity separate from CAMFA, though CAMFA's Chief of Party (COP) sits on Frontier's Board of Directors.

Although not originally part of its design, CAMFA saw an opportunity to support the development of meso-level structures by strengthening nascent microfinance associations in all four republics, including financial and technical assistance as well as the support of two full-time CAMFA staff members. Through these associations, CAMFA has supported policy roundtables on such issues as MFI legislation, taxation, reporting requirements, authorization to mobilize deposit, and development of credit bureaus.

Macro-level support to the microfinance market. While achieving macro-level reforms was not a key design component or an implementation target for CAMFA, its high profile and role in the region has given it credence with local governments to advocate for a more open and supportive microfinance environment. CAMFA has used this voice to speak up for smaller MFIs that lack affiliation with international partners.

IV. Program Outcomes

An important measure of the CAMFA project's success is that it has met or exceeded nearly all targets established in its original cooperative agreement with USAID. At the same time, CAMFA has engaged in other activities with a positive impact on program outcomes as well as on the development of the region's microfinance industry. Table 2 compares CAMFA's programmatic outcomes against the stated objectives of the original cooperative agreement.

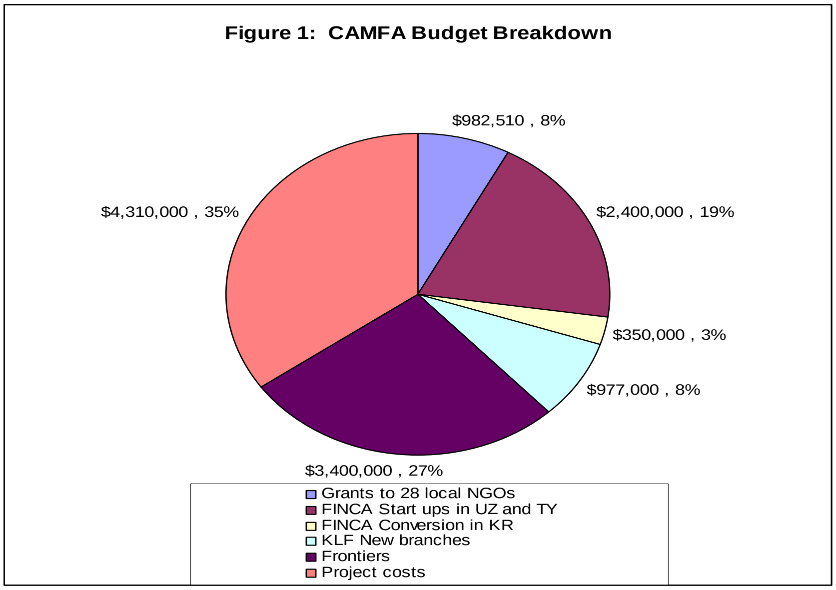
Table 2. CAMFA Cumulative Goals Versus Outcomes 2002 to 2005

CAMFA Goals 2002-2005	CAMFA Outcomes 2002-2005
12 MFIs strengthened	28 MFIs assessed and 17 receive support
27 accredited MFIs	27 MFIs accredited
3 infant NGOs registered	18 NGOs registered
200 MFI staff trained	433 MFI staff trained
2 regional workshops held	2 regional workshops held
12 best-practice articles translated	14 best-practices articles translated
6 MIS installed	17 MIS installed, with training
10 upgrades to accounting systems	16 accounting systems upgraded
4 technical trainings held	6 technical trainings held
50 individuals attend study tours/policy workshops	141 individuals attend study tours/policy forums

Although not initially a part of CAMFA's goals, project management saw both the need and an opportunity to work with MFI associations and did so. It facilitated the formation of Uzbekistan's first microfinance networking association and provided it with significant staff and financial support. Frontiers, which hosted the first meeting of the Kyrgyz MFI Association, has been a key supporter of the association's institutional development, having recognized the potential of associations to serve as important local bases for coalescing and communicating member concerns and sharing experiences. CAMFA also offered early support to the Kazakhstan MFI Association, providing strategic and financial planning and member service development.

V. Program Costs

As of September 2005, project costs for technical and administrative support provided by CAMFA represented 37 percent of the program's $12 million budget. The remaining 63 percent of CAMFA's funding has been disbursed as grants to local and international microfinance organizations as well as to its wholesale lender, Frontiers. Figure 1 provides a breakdown of CAMFA's program budget as of September 2005.



Despite a slow start up, Frontiers had successfully issued more than $2 million in wholesale loans to 24 MFIs from a $3.4 million grant from CAMFA as of September 2005. Its loans, provided at market rates, reach a broad cross section of borrowers, ranging from small MFIs in remote areas to larger, more sophisticated institutions. With total assets of close to $2.9 million, Frontiers earned a net profit of $64,218 in the past year Grant monies disbursed to smaller local MFIs represented 8 percent of CAMFA's budget, while ACDI/VOCA and FINCA received 59 percent of its total budget. Table 3 provides a summary of all grants provided by CAMFA to program partners and other recipients as of September 2005, along with loan number and volume for individual program partners.

Table 3. CAMFA Grants to Partners as of September 2005

CAMFA Partners	Grant Value	Volume of Loans	Number of Loans
FINCA Tajikistan	$1,100,000	$190, 937	971
FINCA Uzbekistan	$1,300,000	$433,245	2,286
FINCA Kyrgyzstan	$350,000	$12,143,771	24,801
KLF	$977,000	$8,746,098	13,835
Frontiers*	$3,400,000	$2,064,928	24
Subtotal – Large Grants	$7,127,000	$23,388,042	41,917
All Other Grants (n = 28)	$982,510	$7,221,654	22,797
Total	$8,109,510	$30,609,696	64,714

*Wholesale loans to MFIs.

VI. Case Study Lessons Relevant to Study Hypothesis

The CAMFA project offers some interesting examples of the advantages and disadvantages of using the umbrella program structure. While few of the advantages may be unique to the context of the region and to the CAMFA program, many have general relevance for umbrella programs. Several examples:

Support a range of partners and promote industry building. CAMFA's umbrella design created a structure through which it could reach out to a broad range of individual MFIs at different levels of institutional development, as well as support activities that benefit the microfinance industry as a whole. The flexibility of the umbrella program structure allowed CAMFA to offer a spectrum of direct financial and technical assistance as well as indirect assistance to partners at the micro, meso, and macro levels. Even after CAMFA's direct grant-making relationship with a partner is over, partners continue to benefit from CAMFA's industry-building activities. While CAMFA lacks sufficient resources to reach out to the hundreds of smaller micro lending organizations in the region, it supports a wide range of organizations and development of the microfinance market as a whole by organizing industry-building activities such as annual regional conferences, training programs, translation of best-practice materials into Russian, and assistance with legal registration.

Encourage knowledge sharing. In addition to offering direct technical assistance and financial support, CAMFA offers additional indirect assistance by encouraging partners to collaborate and share knowledge. While many of CAMFA's partners were *de facto* competitors, the volatile and sometimes hostile environment MFIs operate in has encouraged them to band together in the face of outside pressures from governments and politicians. Building on this solidarity, CAMFA encourages its partners to share information, including the names and repayment histories of borrowers, with the expectation that this kind of information sharing would continue after the program closed.

Integrate policy reform. At the meso level, CAMFA's support for microfinance associations in Kazakhstan, Tajikistan, and Uzbekistan helps create industry-wide fora for promoting microfinance and advocating MFI interests. A primary objective of these associations is to improve the macro-level legal and regulatory environment for MFIs by raising awareness among government agencies, ministries, and central banks, and advocating for the needs of local MFIs. These associations will continue to promote policy reform dialogue after the program's end.

Respond to new opportunities. Another advantage of the umbrella program structure is its ability to fill unforeseen gaps in program design more quickly than single-purpose, discrete efforts. As conditions change and new opportunities arise, it is easier to amend one umbrella contract or work plan than to modify multiple contracts and agreements. For example, although it was not originally a major part of CAMFA's work plan, the program responded to a need to strengthen meso-level capacity by supporting the formalization and institutional development of national MFI associations in each country. In fact, CAMFA dedicated a member of its own full-time staff to the MFI association in Uzbekistan and provided a grant to the MFI association in Tajikistan, allowing it to hire a full-time executive director. These well-timed, responsive interventions represent key steps toward building sector-wide local capacity in microfinance.

Ensure accountability. Upon agreeing to the overall program activities and targets outlined in the cooperative agreement, it became CAMFA's responsibility to select partners, develop subgrant agreements and targets, monitor progress, and ensure compliance. This allowed the Mission to maintain accountability through a single program management team rather than through dozens of smaller ones. In centralizing accountability for multiple activities in one program, the umbrella grant mechanism also centralized reporting. CAMFA produces and provides to the Mission regular quarterly and annual reports on its grants that are accurate, comprehensive, and concise. Another benefit is that an umbrella program creates a single point of contact for host governments for different activities and provides an additional channel to access USAID assistance.

Reduce Mission management burden and program costs. For USAID Mission staff, an umbrella program offers the possibility of bundling several activities around a common theme more efficiently than implementing many discrete projects. Such bundling also reduces the number of procurement actions and management units that must be managed by Mission staff. For example, implementing CAMFA's three main components as individual activities in each of the republics would have required up to 12 discrete projects, constituting a significantly greater management burden for the Mission. In addition, while the cost of establishing an umbrella program office are not *per se* less expensive than the cost for a stand-alone project, an umbrella program's cost can be spread out over a number of activities. Using an umbrella program model thereby economizes on the considerable resources that would otherwise be required to establish and maintain a dozen different individual project offices.

Shape assistance with an eye to the expertise of umbrella manager's staff capacity. While a potential disadvantage of the umbrella program structure is distortion of technical assistance, training, and other services toward the expertise of the umbrella manager's staff capacity, this was not generally the case with CAMFA. MFI partners express appreciation for CAMFA's carefully crafted approach to providing tailored and appropriate assistance. CAMFA management has made an active effort to avoid distorting its assistance by ensuring its partners fully participate in the identification of their own needs and development of a customized action plan. CAMFA management also seeks to select and train talented, motivated staff from a variety of disciplines to ensure the availability of a wide range of technical expertise. In areas where CAMFA lacks the skills or resources to provide assistance, it establishes linkages with outside service providers, such as lawyers, to help with MFI registration and Microfinance Finance Center CAR regional training programs.

Rely on the skills and credibility of the Chief of Party. The potential benefits of reduced management burden for the Mission in using an umbrella program structure are inherently tied to the selection of a strong Chief of Party to manage the effort. While CAMFA's Chief of Party has proved to be highly effective and is widely respected by her colleagues, it is entirely possible that a weak umbrella program manager could actually increase the Mission's management burden rather than reduce it. Whether strong or weak, reliance on the skills and credibility of the Chief of Party to ensure effective coordination with partners, governments, and other donors creates a distance between the Mission and the line management of its activities. This distance can potentially lead to reduced involvement by Mission staff in decisions concerning funds management and allocation to program partners. In the case of a skilled Chief of Party, this distance can help the Mission to focus on larger issues of management and strategy rather than on day-to-day administration. In the case of a weak Chief of Party, this same reliance could become a significant liability.

Watch for potential conflict of interest. There are advantages and disadvantages to selecting an implementing partner with ongoing programs in the region to manage an umbrella grant program. Without careful management, the advantages of in-country skills and experience can be outweighed by real or perceived conflicts of interest. In the case of CAMFA, the Chief of Party had years of experience in the region as a technical advisor for ACDI/VOCA before the project started and was instrumental in the successful growth of one of CAMFA's major partners, KLF. Although she is no longer active in the day-to-day operations of KLF, she continues to maintain a seat on its board of directors.

Outside evaluators and partners are generally in agreement that CAMFA's Chief of Party has made a strong effort to avoid any conflict of interest; however, the perception of a conflict of interest can be harder to erase. More than one CAMFA partner has complained that it is inappropriate for the same organization (ACDI/VOCA) to manage an umbrella while actively supporting and managing MFIs in the region. In addition, the fact that CAMFA's Chief of Party sits on Frontiers' board of directors puts her in a position to approve or deny requests for loans, including loans to ACDI/VOCA's local partners. The perception of conflict of interest among CAMFA's partners is likely exacerbated by the fact that ACDI/VOCA and FINCA, which submitted the CAMFA proposal to the Mission, both received very large, non-competitive grants at the beginning of the program. This raises the question of whether an umbrella implementer should be barred from subgranting to affiliated beneficiaries (i.e., ACDI/VOCA and KLF, and FINCA and its local affiliates). While such a ban may appear to solve a perceived conflict of interest, it is not clear that such a policy would actually benefit MFIs and their borrowers. In the case of CAMFA, ACDI/VOCA has important institutional knowledge of the CAR, and was probably the best choice to manage this program. A more practical approach advocated by the Mission was to accept a certain level of concern regarding potential conflicts of interest, while implementing safeguards to prevent *actual* conflicts of interest from arising. Such safeguards include requiring Mission approval for any loan from Frontiers to an ACDI/VOCA partner.

Beware distorting market competition by "picking winners." Associated with the risk of conflict of interest is the risk of skewing the market by offering assistance to one MFI and not its competitors. In the case of many of the smaller "infant" MFIs in the bottom 50 percent of the market, selection as a CAMFA partner may well have been their big chance to rise to next level of institutional development. While this is an excellent opportunity for selected partner MFIs, those that are not selected and do not have access to program subsidies are at a disadvantage. However, a certain winner-loser dynamic may be unavoidable with limited program resources, and to some extent may be necessary for the program to avoid spreading itself too thin and maintain proper focus on those MFIs with real potential for growth.

Case Study: USAID/El Salvador

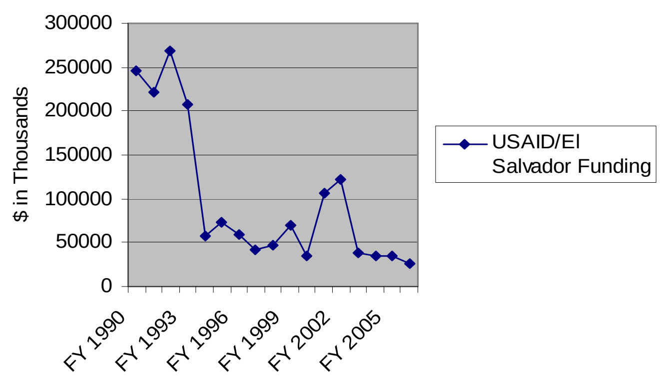
Since the 1980s, USAID/El Salvador has supported nascent microfinance institutions (MFIs) providing financial services to the rural and urban poor. Assistance was initially provided to local and international network NGOs specialized in the delivery of microcredit. In the mid-1990s USAID/El Salvador funded a succession of umbrella microfinance programs working with a host of market players (see Table 1). In January of 1999, Development Alternatives International (DAI) began implementation of the Rural Financial Markets Activity, also known by its Spanish acronym FOMIR (Fortalecimiento de las Microfinanzas Rurales). USAID/El Salvador and FOMIR were selected for five reasons:

- El Salvador's increasing market maturity adds diversity to the other cases
- FOMIR's longer duration of implementation (seven years)
- The Latin American political and cultural context
- Fluctuations in Mission size and funding
- DAI, implementer of FOMIR, is a major implementer of microfinance umbrellas

I. Mission Profile

As shown in Figure 1, USAID remains one of the largest bilateral donors in El Salvador, with $34.8 million committed in 2005 and invested in three major strategic objectives: S.O. 1, More Responsive, Transparent Governance; S.O. 2, Economic Freedom – Open, Diversified Expanding Economies; S.O. 3, Investing in People – Healthier, Better Educated People. USAID also distributed significant assistance in the wake of several natural disasters, contributing nearly $26 million in assistance after Hurricane Mitch in 1999 and $178 million after two devastating earthquakes in 2001. Aside from these events, funding levels for USAID/El Salvador declined precipitously during the 1990s, despite a broadened scope of administrative responsibilities. USAID/El Salvador has recently assumed management for all USAID activities in Central America and Mexico. Despite the additional responsibilities, the Mission reduced staff from 158 in 2000 to a current level of 126, of which 17 are U.S. direct hires.[26]

Figure 1: USAID/El Salvador Funding Since 1990



In the early 1990s, USAID's economic assistance concentrated on reducing rural poverty. This proved to be a significant challenge in El Salvador: from 1991 to 2001 urban poverty fell from 53.7 percent to 31.3 percent, but rural poverty decreased less markedly, declining from 66.1 percent to 51.6 percent.[27] By the mid-1990s USAID's support for nascent microfinance organizations included a strong focus on extending the industry's reach deeper into rural areas, with the Mission's 1997-2003 Strategy stating that USAID "will promote access by the rural poor to financial services such as credit and secure savings." Assistance was provided through both single-purpose programs to retail level institutions and their international affiliates, as well as through larger umbrella programs by means of cooperative agreements and contracts.

[26] Per staffing estimates were taken from the USAID/El Salvador Country Plan, pages 19-21.

[27] http://www.usaid.gov/sv/ege/index.htm.

Recently USAID/El Salvador has taken a new tack to generating economic growth. The Mission now views the microfinance industry as sustainable and no longer in need of substantial institutional support, although it will continue to provide limited assistance for NGO micro lenders to become regulated intermediaries. The Mission views trade policy, fiscal reform, and export promotion as central to creating a more competitive private sector that is better able to attract foreign investment, compete internationally, and create jobs. Financial markets activities will emphasize SME access to financial services through technical assistance and loan guarantees to regulated intermediaries. Table 1 shows the Mission's major microfinance assistance efforts from 1996 to 2006.

Table 1. USAID/El Salvador Major Assistance Programs to Microfinance Market 1996-2006

Years	Program	Mechanism	Design Type	Implementer	Focus
1990-1999	Microenterprise Dev. Activity	Cooperative Agreement	Single-purpose	FINCA	Establishment and growth of a Salvadoran retail lending institution, CAM (Centro Apoyo a la Microempresa)
1994-2000	CRECER 2000	Contract	Umbrella	Chemonics/ WOCCU	TA/training for mobilization of rural savings; assistance to producer groups for increasing access to markets, inputs, and financing
1996-2000	Microenterprise 2000	Cooperative Agreement	Umbrella	CRS	Limited capitalization of select MFIs, training, and technical assistance; support to credit bureau
1998-2002	FOMIR I	Stand-alone Task Order (contract)	Umbrella	DAI	Technical assistance; subgrants; linkages to capital; transformation assistance; access to sector information; installation of better MIS; credit bureau linkages
N/A	Superintendent of Financial Systems (advisors)	Contract	Single-purpose	DAI	Placing legal experts in the SFS to strengthen the Law of Non-banking Financial Intermediaries
2002-2005	FOMIR II	AMAP Task Order (contract)	Umbrella	DAI	Linkages with local consultants; enhanced industry information; development of microfinance association; some institutional development
N/A	DCA Loan Guarantees	N/A	N/A	N/A	Establishment of loan guarantees with ProCredit and Banco Salvadoreno
2006-2009	CRECER 21	SEGIR FS Task Order (contract)	Umbrella	TBD	Strengthen financial institutions to increase SME lending; assist two NBFIs in transforming into regulated institutions

II. Microfinance Market in El Salvador

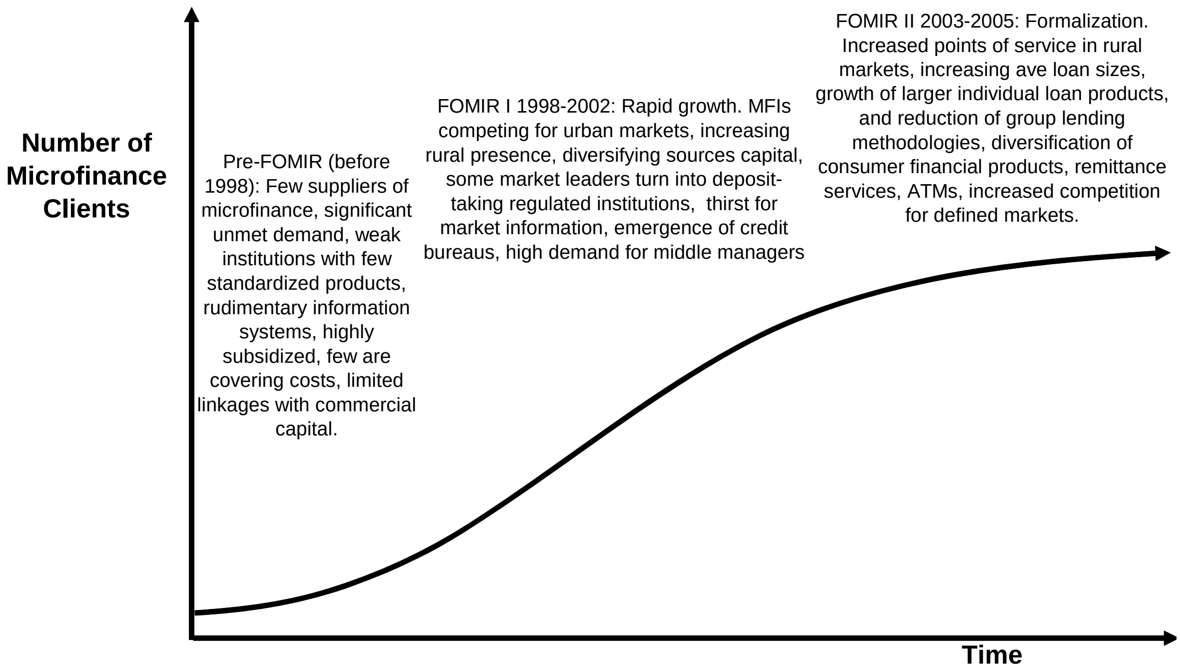
During the lifetime of FOMIR, the microfinance market experienced rapid growth, increased sustainability, enhanced competition, and deeper penetration of rural markets. Market leaders now incorporate many characteristics of for-profit intermediaries. Some NGO MFIs are regulated, mobilizing deposits, strengthening transparency, and improving customer service. At the same time, some market leaders have opted to remain up-market, focusing on larger individual loans with lower administrative costs. Figure 2 illustrates the industry's evolution.

The pre-FOMIR Microfinance Market

Following its 12-year civil war, El Salvador's financial markets were weak and undercapitalized. Few institutions financed microenterprises, and those that did serve the sector were often stated-owned, susceptible to political intrusion, and plagued by lack of sustainability. The largest state-owned lender – Fedecredito – discontinued lending in rural areas in 1997. Commercial bank loans, which averaged between $8,500 and $22,750, were out of reach of the entrepreneurial poor.[28] Some 65 percent of microenterprises operated outside of San Salvador,[29] but higher transaction costs had kept rural financial markets shallow. Although NGOs had begun micro lending activities in the mid-1980s, they made up a small part of the market. One notable exception was Financiera Calpia: Through support from a host of donors, notably USAID, GTZ, and IDB, Calpia has experienced rapid growth since its inception in 1988, particularly in rural areas.[30]

The FOMIR I microfinance market: 1998-2002. FOMIR I microfinance market operators included NGOs, credit unions, "cajas de credito," finance companies, and commercial banks. In 2001, 115 microfinance organizations served the country's microenterprise market, meeting approximately half of total demand in the sector, estimated at 259,725 microenterprises.[31] Most lenders were tiny. With the exception of Financiera Calpia – with over 20,000 savers and 30,000 loans in 1998 – regulated microfinance portfolios were largely in the pilot stage and just breaking even. Although some NGO MFIs reported operational self-sufficiency, they were unable to cover commercial capital costs. Arrears declined for market leaders, but financial and administrative problems remained, including issues related to interest-rate policies, IT systems, and human

Figure 2: Development of the Microfinance Market in El Salvador



[28] According to "The Transformation of Financiera Calpia in Banco Calpia," a proposal to USAID/W. 1999.

[29] Estudio de Oferta y Demanda de Creditos en el Sector Microempresarial, CONAMYPE (June 2001).

[30] Gonzalez-Vega, Claudio. "Innovative Approaches to Rural Lending: Financiera Calpia." OSU. June 2000.

[31] Deloitte Touche Tohmatsu, "Evaluation of Rural Financial Markets Activity for USAID El Salvador," Aug. 2002.

resources. Microfinance organizations had extended their reach to rural areas, resulting in 252 of the country's 262 municipalities with outstanding microenterprise loans, but unmet demand was estimated at over 100,000 rural microenterprises, some 38 percent of the market. In 2001, the Law for Non-Bank Financial Institutions created legal and regulatory space for integration of microfinance organizations into formal financial systems. However the government's Superintendency of the Financial System (SSF) had limited capacity to regulate microfinance appropriately. Dialogue between the government and microfinance organizations was weak and MFIs did not understand the new legal requirements. With increased demand for borrower information, the number of credit bureaus doubled between 1995 and 2000.

The Microfinance Market: FOMIR II 2003-Present

The microfinance market has continued to grow, particularly for market leaders; nevertheless, higher rates of penetration and a general economic slowdown have slowed the rate of growth. The aggregate microfinance portfolio of the top six performing microfinance organizations increased from $91 million in 2003 to $144 million in 2005.[32] Along with this growth, MFIs report saturation in credit services in primary and secondary urban markets: According to FOMIR estimates, 85 percent of total potential borrowers in urban and rural markets is currently being reached. In 2002 alone, 10 of El Salvador's 14 departments grew by 10 percent; in contrast, 6 departments grew by 8 percent between 2003 and the present. Even so MFIs believe there is demand for new products in urban markets, and for a full array of services in rural markets.

Increasing competition can be seen in several ways. Microfinance interest rates have declined, indicating reduced risk and increased competition for clients. Growth strategies are becoming more sophisticated. One MFI purchased a portfolio of another to meet growth targets. Short-term working capital loans are no longer sufficient to stay competitive. Solidarity and village-banking methodologies are experiencing a declining share of the market, while housing and remittance services are increasingly popular.

Table 2. Beneficiaries Under FOMIR I & II

	FOMIR Beneficiary	Type (2005)	Network	USAID Assistance
1	Banco Salvadoreno	Bank	N/A	FOMIR I & II
2	Banco Agricola (Banco Desarrollo)	Bank		FOMIR I
3	Banco ProCredit (once known as Calpia)	Bank	Frontier Finance	FOMIR I & II
4	ACCOVI	Regulated NBFI	N/A	FOMIR I & II
5	Apoyo Integral (Fusai)	transform-ing NGO	ACCION	FOMIR I & II
6	Sociedad Cooperativa de Ahorro y Credito (AMC)	transform-ing NGO	N/A	FOMIR I & II
7	Asocciacion de Extensionistas Empresariales del INCAE (ASEI)	NGO	Katalysis	FOMIR I & II
8	Fundacion Jose Napoleon Duarte (FJND)	NGO	None	FOMIR I
9	Centro de Apoyo a la Microemresa (CAM)	NGO	FINCA	FOMIR I
10	ACACSEMERSA	Coop	None	FOMIR I
11	ACACU	Coop	None	FOMIR I

Despite increasing competition, sector constraints still exist. For example, banking secrecy laws prohibit regulated financial intermediaries from sharing client information with non-regulated institutions. Organizations representing the interests of non-regulated lenders are generally weak. MFIs still rely on international experts for technical assistance in many areas. MFIs note that clients have increasing access to microfinance substitutes such as supplier credit.

III. FOMIR I Project Profile

The purpose of the FOMIR program was to "provide technical assistance to

[32] The six FOMIR II institutional partners were Banco Salvadoreno, Banco Procredit (formerly Calpia), ASEI, ACCOVI, AMC, and Integral.

rural-focused financial institutions, serving the microenterprise sector, to help them attain self-sustainability by improving their financial performance, and to expand and deepen coverage of financial services to rural, poverty-level microenterprises."[33] FOMIR was a five-year, $13.1 million umbrella program designed to strengthen microfinance organizations serving micro and small enterprises in rural areas. ACCION International and the World Council of Credit Unions (WOCCU) were subcontractors under the stand-alone program.

Over $9 million was targeted for subgrants for 11 competitively selected financial institutions. Through a competitive process 11 institutions were selected over a one-year period: 2 commercial banks, 1 "financiera," 3 credit unions, and 5 nongovernmental organizations. The participating institutions never received cash grants. All assistance was managed through FOMIR staff. Support for FOMIR I and II program beneficiaries is shown in Table 2.

Grants paid for the following activities:

- *Training and short-term technical assistance (45 percent of total grants budget).* FOMIR provided direct assistance and training to participating institutions to support an agreed-upon institutional action plan. FOMIR held over 100 separate training events, providing nearly 3,000 units of service. As of June 2002, FOMIR delivered 49 months of short-term Salvadoran and 77 months of short-term international assistance (third country and U.S.). In general, local and expatriate consultants were used in areas where they were best suited. Where local consultants were strong – in information technology and operations – 32 person months of local LOE was used, versus 21 person months of expatriate LOE. However 42 person months of expatriate LOE was used for marketing and strategic planning, as opposed to just 13 person months of local LOE. DAI and its subcontractors ACCION and WOCCU provided all of the international assistance. These subcontractors were affiliated with some project beneficiaries. MFIs reported that DAI, ACCION, and WOCCU provided assistance of equal quality; however, there was high variability in the quality of local technical assistance and training.

- *Capitalization fund (25 percent of grants budget).* The Fund was established to promote MFI access to commercial loans from banks. Certificates of deposits between $320,000 and $550,000 were put in place for four project beneficiaries: AMC, FUSAI/Integral, FJND, and ASEI. Each MFI received a line of credit against the commercial bank deposit. The fund was established to leverage loans to MFIs beyond the amount deposited by USAID. AMC was most successful, leveraging loans from Banco Agrícola at a rate of 1.5:1, and from other commercial banks with a total ratio of 5:1. FUSAI/Integral leveraged funds at a 1-to-1 ratio from commercial sources. FJND and ASEI only partially utilized the fund and achieved no leverage.[34] At the end of the program, USAID deposits were granted to participating MFIs. In 2005 AMC and Integral had strong relationships with commercial lenders and equity funds. However, after deposits were granted at the end of FOMIR I, ASEI and FJND simply used the funds for operating expenses, achieving no future leverage.

- *Commodities support (28 percent of total grants budget).* FOMIR procured fixed assets for participating MFIs to improve operations and accelerate outreach to rural financial markets. Assets included rental space, vehicles, computer equipment, and some labor costs. An evaluation of the FOMIR program concluded that the support had mixed results. Commodities for rural branches did in fact lower outreach costs, while provision of IT had strengthened information gathering. Program partners could now interface

[33] Per Rural Financial Markets Request for Proposal. 1998.

[34] ASEI began using the fund only in the second quarter of 2002, as it had lower-cost funds available initially; in addition, FOMIR had recommended that the organization first improve its operations.

with credit bureau systems. Nevertheless, implementation of management information systems was time consuming and costly. A FOMIR evaluation concluded that insufficient thought had been put into the selection of software packages for partners. Some partners complained that FOMIR staff did not always purchase the most appropriate goods: for example, four out of the six Takoma trucks purchased by FOMIR for MFIs were stolen.

Table 3. FOMIR I Outcomes

FOMIR I Target	Actual (9/03)	Comments
Serve 20,000 new rural borrowers.	31,946 new rural borrowers.	Target exceeded.
Make 7,000 loans for $400 or less.	10,950 loans were made.	Target exceeded.
Open at least 7 new points of service for rural clients.	48 points of service were added, bringing total points of service to 77.	Target exceeded.
5 NGO MFIs obtaining commercial bank loans.	5 NGO MFIs obtained commercial bank loans.	Target met; however capitalization fund only included 4 MFIs; of these, ASEI utilized 9% of the deposit.
6 partner institutions offering saving services to rural clients.	6 offered secure savings.	Target met.
4,000 active depositors.	7,804 active savers.	Target exceeded.
$400,000 in active savings accounts.	$784,186 in partner savings.	Target exceeded.
8 partners reaching OSS.	9 partners reached OSS.	Target exceeded.
7 partners reaching FSS.	8 partners reaching FSS.	Target exceeded.
Aggregate portfolio at risk will be no more than 8% at 30 days past due.	Although the weighted average is just under 7%, 7/11 partners PAR at 30 days is below 10%.	Target met for some institutions, not for others.
6 partners with improved statutes.	6/6	Target met. The intent of this target is that partners take serious steps toward becoming fully integrated into the formal financial market as regulated institutions.

MFIs and other stakeholders remarked that FOMIR's greatest success was in strengthening transparency and the quality of information available to the industry. The program consolidated data from partner performance reports into a digestible format. The result was *Microenfoque*, a quarterly newsletter providing market information, to which 31 MFIs had contributed by 2003. FOMIR also facilitated linkages between MFIs and credit bureaus using vouchers. All MFIs interviewed for the case study continue to use credit bureau services. FOMIR also introduced partner MFIs to commercial investors. FOMIR outcomes are depicted in Table 3.

Earthquake Response

In January and February 2001, El Salvador was hit with two massive earthquakes, causing widespread damage throughout the southern part of the country. More than 5,300 people died and over 200,000 homes were damaged or destroyed. Nearly 50,000 microenterprise jobs were immediately lost.[35] Four FOMIR institutions reported that 11,000 clients were directly affected. Many partners experienced infrastructure problems, higher rates of delinquency, and stagnant portfolios. With $1.7 million in new funding from USAID/El Salvador, the FOMIR scope of work was broadened to help its partners restore borrower livelihoods and manage an effective response to the disaster. This included the following:

[35] According to CONAMYPE, a quasi-public institute attached to the Ministry of Economy.

Development Credit Authority (DCA) Guarantee. FOMIR worked closely with USAID to secure a loan guaranty for Calpia to cover reserve requirements for rescheduled loans. As a regulated institution, Calpia needed to place an amount equal to 100 percent of its rescheduled loans into loan-loss reserve. Calpia required $4.5 million to reschedule its loans. The Superintendency accepted a $4.4 million USAID DCA guaranty as reserves. In the end, Calpia only wrote off $125,000, of which $76,000 was covered by the guaranty.

Productive Assets Grant (PAG) program. FOMIR made small grants of $400 each to existing FOMIR partner clients to replace business assets damaged or destroyed by the earthquakes. Grants were made "in kind" directly from FOMIR and not through MFIs to avoid the impression that grants were issued to forgive loans. FOMIR distributed $1 million in PAGs to more than 2,500 clients. An assessment of the program confirmed that over 6,300 microenterprise jobs, accounting for 13 percent of the total jobs affected. Further, the study determined that sales levels for affected enterprises receiving the grants increased over pre-earthquake levels.

Table 4. Outputs from FOMIR Post-Earthquake Assistance

FOMIR I Target	Actual (9/03)	Comments
2,500 earthquake-affected microenterprises provided with $400 grants to re-establish income-generating activity.	2,521 earthquake-affected microenterprises provided with $400 grants to re-establish income-generating activity.	Target met. Sales by earthquake grantees surpassed pre-earthquake sales levels by December 2002.
Ensure continued service to microenterprises located in earthquake-affected areas.	No MFIs discontinued service.	Partner MFIs experienced a 35% increase, from 14,858 to 19,968 active rural clients.

Additionally, reconstruction support was provided to Calpia to rebuild its destroyed central offices. FOMIR conducted an impact assessment to help MFIs develop appropriate policies and procedures. It also coordinated with relief agencies to assist its partners' clients in getting access to emergency shelter, food, clothing, and rebuilding materials. FOMIR worked with the Banco Multisectoral de Inversiones (BMI) to develop lines of credit for housing and microenterprise-asset renewal, in addition to assisting its partners in developing appropriate housing and other reconstruction-related products. Earthquake assistance delivered under FOMIR I is described in Table 4.

IV. FOMIR II

In 2003, USAID/El Salvador approved a 21-month follow-on task order valued at $2.6 million. The resulting FOMIR II program supported the Mission's Economic Growth and Education Strategic Objective "Expand Access and Economic Opportunities for Rural Families in Poverty." Similar to FOMIR I, the follow-on activity was designed to help microfinance institutions increase their financial self-sustainability and expand their client base among rural poor households. Again implemented by DAI, FOMIR II was tasked with assisting transforming NGOs in complying with SSF requirements, as well as with generally strengthening the microfinance industry with technical assistance, training, and information. Subcontractors included ACCION International, IMCC, and Frontier Finance.

As the market had greatly advanced since FOMIR I's inception, and fewer resources had been allocated to FOMIR II, it is not surprising that the program relied on a different methodology and tools. Key areas of diversion between FOMIR I and FOMIR II include:

- *Support to 6 partner institutions, instead of 11.* FOMIR II solicited short proposals from its original 11 institutions to participate in the program. Six MFIs were selected, based on their potential to become sustainable, regulated providers of financial services.

- *No large grants.* Although there was some limited scope for commodities support, there was no significant subgrant support under FOMIR II.

- *More focus on the industry,* including producing and disseminating a quarterly news bulletin, carrying out more in-depth sector studies, and organizing relevant sector events.

Technical Assistance

Similar to FOMIR I, the follow-on project provided direct technical assistance to participating institutions to support an agreed-upon institutional action plan. FOMIR staff worked with AMC and Apoyo Integral to improve their information and other systems to move the groups toward meeting regulatory requirements. FOMIR II also provided assistance in organizational restructuring and human resource management, acquisitions, portfolio, and financial management, transparency, new product development, ABC costing, and other information-technology upgrades. Compared to its predecessor project, FOMIR II relied more heavily on local and third-country consultants, employing local and third-country consultants six times more often than U.S. expatriate consultants.

During development of this case study, MFI managers and other stakeholders were asked to evaluate training and technical assistance quality, disaggregated by international DAI assistance, international PVO affiliate assistance, and local assistance. On a scale of 1-5, scores for DAI and the international affiliates (FINCA, ACCION, and Pro Credit) were between 4 and 5, while scores for local consultants ranged between 3 and 4.

Stakeholders consistently noted that local consultants were very good in some areas, but not in others. No institution reported that FOMIR technical assistance or training was inappropriate to its needs. DAI's contractor performance reference form noted that "Almost all of the institutions assisted expressed satisfaction with DAI. Some mentioned that the contractor was not imposing ….This flexibility and quality helped them better reach their targets."

Training and Industry Building

Although technical assistance was only offered to the six partner institutions, FOMIR made training available to all microfinance organizations, albeit at different levels of intensity. MFIs were classified into three groups – group #1 consisted of the six partner institutions, group #2 was the remaining five institutions under FOMIR I, and group #3 was all other institutions. Each group was assigned a budget. Groups 1 and 2 received most of the funding, but used only 56 percent and 82 percent of their allocated budgets, respectively, whereas group 3 utilized 99 percent of its budget. FOMIR II put more emphasis than the previous program on linking local training providers with MFIs, using 50-percent and 75-percent vouchers to stimulate demand for services. The declining subsidy also stretched FOMIR II's limited resources. The total average USAID subsidy per trainee was only $91.

Box 1. Microfinance Information Development Under FOMIR II

FOMIR II put more emphasis on developing information useful for the development of the microfinance industry. The program developed five studies, highlighted below.

- The Data Mining Study identified spatial microfinance supply and demand trends.
- The Village Banking Methodology documented the decline in popularity of group-lending approaches as microfinance markets in El Salvador developed and matured.
- The Young Professionals Market Study assisted young professionals in analyzing the characteristics of a microfinance market.
- The Indebtedness Study examined the level of client debt and the implications for microfinance institutions.
- The Salary Study evaluated salary structures within the microfinance industry.

Over 1,000 MFI staff members were trained and a database of 50 local consultants was transferred to ASOMI, along with management for the training program.[36] Training targeted the middle tier, with credit officers and branch managers together receiving over two/thirds of the training; senior management received just 5 percent. MFIs reported that the quality of training was generally good. Although there was some grumbling about paying for trainings and the overly general nature of some of the courses, participant evaluations were generally strong. On a scale of 1-5, average course quality was rated as 4.58; instructor quality received a 4.67 rating, the quality of materials scored 4.34, and practical application earned a rating of 4.6. All partners interviewed believed that the training assisted their staff in improving performance. An added benefit was an increase in MFIs' declared financial commitment to training staff.

FOMIR II's voucher program successfully linked local consultants to microfinance organizations. However, the constraint is no longer the absence of linkages between consultants and financial institutions; it is the absence of viable services. FOMIR II heavily used the top eight performing consultants for the bulk of its training. By only working with a handful of local consultants, FOMIR missed an opportunity to stimulate a more viable supply of services. FOMIR II continued its support of the quarterly bulletin *Microenfoque*, with the number of MFIs reporting to the bulletin increasing from 31 under FOMIR I to 72 by 2005, representing nearly the whole market. The newsletter is distributed to 183 public and private groups and 340 individuals. FOMIR II spun off this function to the Universidad Centro Americana Jose Simeon Canas (UCA), which has continued to issue new editions. In addition to holding conferences and seminars, FOMIR completed five major sector studies, highlighted in Box 1 on the previous page.

FOMIR II Outputs

As shown in Table 5, the FOMIR II portfolio achieved many of its targets, despite a general slow down in the microfinance market. As of May 2005, the six partner institutions exceeded rural outreach targets, including number of new rural clients and number of new rural branches. The number of depositors achieved was three times the target. Portfolio quality was strengthened. Five of the six institutions reached financial sustainability. The average weighted arrears decreased from 5.66 percent to 3.66 percent. Most partners diversified their capital structure with private equity and debt.

Table 5. FOMIR II Quantitative Outputs

FOMIR II Target	Actual (5/05)	Comments
9 new branches serving rural clients	12	Target exceeded
13,500 new, active rural borrowers	14,242	Target exceeded
6,900 new rural loans <400	2,742	40% of target
3 institutions offering savings institutions to new clients	3	Target met
3,000 active depositors	9,266	Target exceeded
1,500,000 growth in savings	976,228	66% of target met
6 institutions at OSS	6	Target met
6 institutions at FSS	5	83% of target met
Average of 8% PAR for portfolios at 30 days	Weighted average is 3.66%	Target met; however, PAR was above 8% for two institutions
6 institutions operating under SSF regulations	3	50% of target met

[36] ASOMI now receives non-USAID donor funding to continue the program.

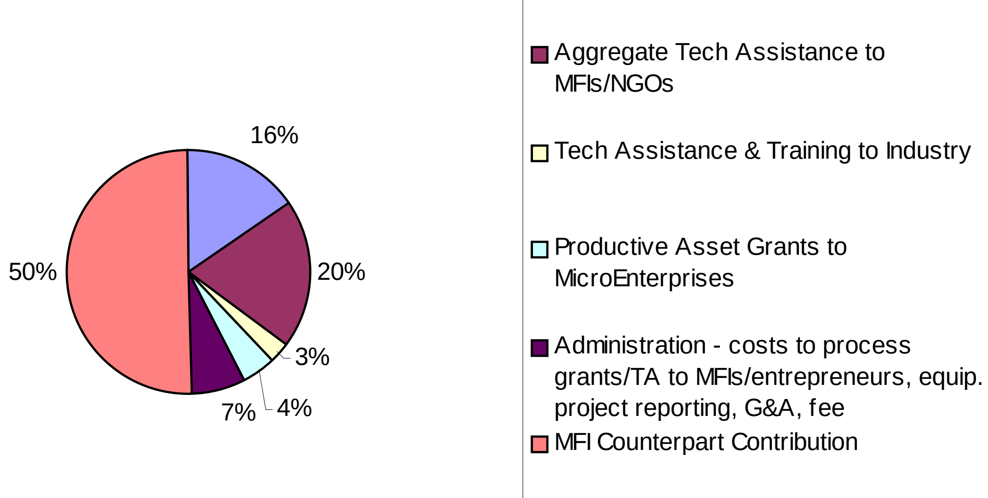
For better or for worse, FOMIR II institutions headed up-market toward larger individual loans and above the poverty line. While FOMIR I exceeded the project target of 7,000 poverty loans by nearly 4,000 with its 11 institutions, FOMIR II institutions reached only 40 percent of the poverty loan target; moreover, the average loan size increased by 20 percent ($1,104 to $1,409). Although the number of rural branches increased by 12 during FOMIR II, expanding the reach of the six institutions to all 262 municipalities, 69 percent of all new clients were in municipalities with low levels of poverty.

The project also contributed to industry advancement. Through a quarterly bulletin and several studies, market players now have better, more sustainable access to information. Transparency has improved, with eight MFIs reporting to the Microfinance Information Exchange (MIX). Linkages were strengthened between local consultants and microfinance organizations; in addition, more microfinance providers are represented by an association. Nonetheless, progress toward meeting SSF regulatory requirements was slow, with FOMIR II reporting that only three institutions met the requirements. Among the three, Banco Salvadoreno was already regulated, and Calpia and ACCOVI both far along in the process by the end of FOMIR I. AMC and Integral received similar support, but have not yet met regulatory requirements,

V. Cost Profile

Project expenditures reached $13 million between 1999 and 2003. Of this, 86 percent of expenditures were program costs that benefited partner MFIs or their clients, including cash and in-kind grants, technical assistance, training, and productive-asset grants subsequent to the 2001 earthquake. Only 14 percent of total program costs were administrative in nature (costs to process grants, technical assistance, reporting, G&A, and fee). Each of the partner institutions put forth substantial cost share, increasing the total value of the program to over $26 million (see Figure 3).

Figure 3. FOMIR Cost Profile



As FOMIR II did not include a subgrants component, the bulk of expenses were in other direct costs and short- and long-term technical assistance. Other direct costs were 39 percent of total program costs, and included costs for training vouchers and procurement of equipment for MFIs as well as sector studies and travel and transportation. Costs for short-term expatriate and local consultants were roughly the same, at 12 percent. The project had two long-term expatriate consultants – accounting for 29 percent of costs – as well as 5 local long-term project staff and support staff, which took up just 6 percent of costs. FOMIR II partner cost share was not available for study. As there are no subgrants under FOMIR II, it can be assumed that the percentage of cost share would be substantially less than under FOMIR I. Even so, MFIs shared up to 50 percent of the cost for training under FOMIR II.

VI. Case Study Lessons Relevant to Study Hypothesis

FOMIR I and II illustrate the advantages and disadvantages of an umbrella program design. While some advantages are unique to the context of the El Salvador, others are more broadly relevant:

Understand the trade-offs in investing heavily in market leaders. In FOMIR I and II, USAID worked with institutions capable of generating the greatest impact for the largest number of microenterprises. FOMIR II narrowed the universe of assisted financial institutions from 11 to 6. Many of those institutions interviewed, including those that received funding under FOMIR I but not FOMIR II, believed this to be the right decision. FOMIR II's six institutions, which accounted for nearly 60 percent of the total market share, had the greatest potential for expanding the breadth of financial services. However, this strategy moved the programmatic focus *away* from poverty reduction. The 1997-2003 strategy stated that USAID "will promote access by the rural poor to financial services such as credit and secure savings." Yet, FOMIR II institutions reached only 40 percent of the poverty loan target, and the average loan size increased by 20 percent (from $1,104 to $1,409).

Separate policy reform from institutional development. Unlike many umbrellas, USAID/El Salvador saw an advantage to separating policy reform activity from the FOMIR program. Under another task order, USAID financed legal and regulatory microfinance work with the Superintendent of Financial Systems (SSF). Under this program, advisors worked along side officials from the SSF in relevant legislation. The Mission elected not to include this activity in FOMIR, reasoning that FOMIR could be perceived as too close to MFI partners and their interests.[37]

Balance technical assistance and training with dynamic market needs. In general, local and expatriate consultants were used in areas where they were best suited. Under FOMIR I, where local consultants were strong – in information technology and operations – 32 person months of local LOE was used, versus only 21 person months of expatriate LOE. In areas were local capacity was perceived as weak, such as in strategic planning and marketing, 42 person months of expatriate LOE was utilized and only 13 person months of local LOE used. As the market grew, the program leveraged more local than expatriate assistance. The ratio of short-term Salvadoran to short-term international assistance was nearly 5 to 8. FOMIR II employed local and third-country consultants six times more often than U.S. consultants.

Partner with international affiliates in umbrellas. Typically, umbrellas are managed by a prime and few subcontractors or subrecipients in the case of not-for-profits. The prime and the subcontractors provide services distinct from those provided by the international affiliate, though hopefully coordinated. In the case of FOMIR, DAI partnered with international affiliates working with the targeted institutions. In the case of FOMIR I, DAI partnered with ACCION, which recruited Apoyo Integral into its network. WOCCU had worked with FOMIR I credit unions on an earlier program. Frontier Finance (or Procredit) was a long-time supporter of Banco Procredit. DAI used these partners to deliver support not unlike the type of support international networks generally provide to their affiliates (product development, CAMEL, etc.). DAI and its subcontractors provided all of the international assistance. MFIs reported that the quality of DAI, ACCION, and WOCCU assistance was equally good.

Measure project performance, not just market growth. FOMIR I and II generated impressive numbers – i.e., nearly 50,000 new rural clients, excellent growth rates for many USAID-supported institutions, 60 new rural branches, greater access to remittances, etc. Although impressive, these numbers are not necessarily attributable to the program. Many of the FOMIR institutions received support from IDB, GOES, and the

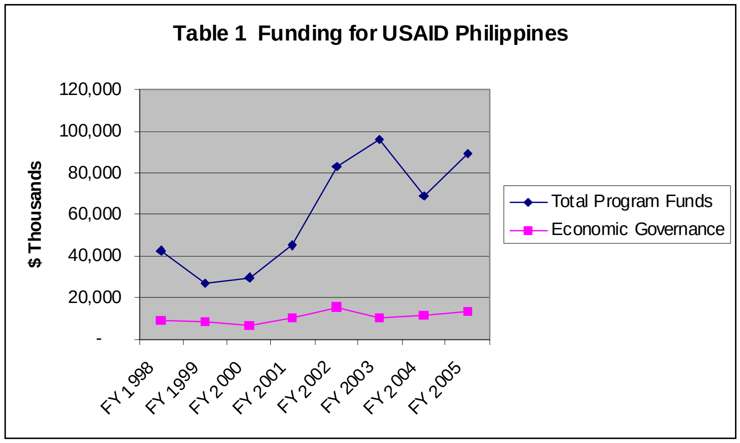
[37] Nonetheless, Development Alternatives was awarded this task order and collaborated regularly with the FOMIR program.

USAID office of Microenterprise Development, GTZ, and other donors. Additionally, it is difficult to discern if donor assistance was the catalyst for microfinance market growth, or if the market and its institutions would have experienced similar growth rates without USAID subsidies.

VII. Conclusion

Given Mission dynamics and constraints and opportunities in the microfinance sector, FOMIR was the right design at the right time. USAID/El Salvador invested millions in developing what was still a nascent microfinance industry in 1997. Constraints at the retail, meso, and macro levels threatened the sustainability of these long-term investments. Simultaneously, the Mission faced a broader scope of management responsibilities while having to contend with staff shortages and fluctuating funding and personnel demands resulting from two devastating natural disasters. Chopped up into discrete programs, FOMIR I would have exploded into 13 single-purpose programs and FOMIR II into 8 separate agreements. Such a portfolio would have been impossible to manage, given staffing levels, and inconsistent with Agency demands for a leaner Mission and reduced number of management units.

CASE STUDY: USAID/PHILIPPINES



This case profiles two microfinance umbrella programs: the Microenterprise Access to Banking Services (MABS) program and Credit Union Empowerment and Strengthening Project (CUES). The Philippines case study brings diversity in geographic and market conditions to the other umbrella cases. More interestingly, it offers the opportunity to compare two projects – one led by a for-profit contractor (MABS) and another led by a not-for-profit (CUES). The project had similar goals and timelines working in a conflict environment in Mindanao, one of the poorest islands in the Philippines. Yet each project has a different focus. MABS and CUES work with different client groups under different mechanisms implemented by different types of organizations. MABS is implemented through a contract by Chemonics International and is focused on strengthening rural banks. CUES, implemented under a cooperative agreement by the World Council of Credit Unions (WOCCU), focuses on cooperatives.

I. MISSION PROFILE

USAID/Philippines is a large mission. Although the Mission currently has a total of 124 employees, staffing levels have decreased dramatically from more than 300 in the early 1990s. Funding levels have fluctuated significantly, from a high of $325 million in 1991, to a low of $27 million in 1999, to the current level of $89 million for FY 2005. Funding for economic growth under Strategic Objective (SO) 2, "Governance of economic, democratic, and legal systems improved," has remained fairly steady and typically represents about 20 percent of the Mission's budget, or $13.5 million for FY 2005.

Umbrella projects are found across all SOs in the USAID/Philippines portfolio. The Mission has frequently used umbrella programs to mitigate the impact of unpredictable funding levels and to respond to changing socio-economic conditions. This approach has been particularly useful as the Mission has seen its budget and staffing levels decrease by more than two/thirds over the last decade. There is widespread agreement that the single most important reason for the existence of umbrella programs is that USAID does not have the staff capacity to administer separate, single-purpose contracts or cooperative agreements. Umbrella projects are therefore regarded as an indispensable tool for managing a broad portfolio with limited USAID staff resources.

Both the MABS and CUES Projects are funded under two different USAID/Philippines Strategic Objectives – SO 12, which is focused on conflict reduction in Mindanao; and SO 2, which aims at improving the business environment. USAID/Philippines implements both SO 12 and SO 2 activities through the Office of Economic Development and Governance (OEDG). The OEDG has designed several broad-ranging umbrella projects, with CUES and MABS representing two programs within a larger portfolio of economic development activities. Another microfinance-focused project is the Credit Policy Improvement Project (CPIP) works with the Philippine Government's National Credit Council (NCC) to rationalize policies on credit, savings, and loan guarantees, encouraging the dissolution of government-sponsored credit programs which has been a disincentive to private sector investment in the microfinance sector, and improving the policy environment for financial services.

An important forerunner to the MABS and CUES program was the PVO Co-financing Project, which ran from 1993 to 1998. At the height of the Philippines banking crisis in 1997, the Mission commissioned a study of MFIs and found market penetration to be very low. After considering alternate approaches and mechanisms for increasing access to financial services, the Mission designed the MABS umbrella project to help rural banks reach down to poorer clients. It was seen as complementary to another Mission-backed effort, the CUES credit union umbrella project, funded a year earlier through a grant from USAID's Microenterprise Development office.

II. MICROFINANCE MARKET IN THE PHILIPPINES

Micro Level

The strength of the Philippines financial sector is notable in its range of actors, level of sophistication, and breadth of coverage. But the country's financial sector is concentrated, with the top six banks controlling more than 90 percent of banking assets and representing more than half of all banking outlets. Although commercial banks are located mainly in larger cities, it is common to find credit union and rural bank branches in remote areas. Thrift banks and rural banks serve smaller towns and rural communities, with each category representing slightly less than a quarter of banking outlets. Rural banks service 93 percent of smaller cities and towns as well as about 50 percent of the 1,493 municipalities in the Philippines. In addition, there are approximately 10,000 cooperatives and some 500 nongovernmental MFIs.

Table 2: Filipino Banking Institutions

Financial Institution	Head Offices	Branch Offices	Total Offices	Loans	Total Assets
Commercial Banks	42	4,287	4,329	$ 29,919,037,037	$ 61,059,259,259
Thrift Banks	87	1,193	1,280	$ 2,522,049,444	$ 4,577,222,222
Rural Banks	720	1,177	1,897	$ 907,371,111	$ 1,543,148,148
Cooperative Banks	44	62	106	$ 72,800,000	$ 103,703,704
Total	**893**	**6,719**	**7,612**	**$ 33,421,257,592**	**$ 67,283,333,333**

Source: Rural Bankers Association of the Philippines, April 2005.

Meso Level

There are a number of well-organized associations and government-run institutions providing support to the sector. Associations operating at the meso level represent a broad range of financial institutions, including the Bankers Association of the Philippines, the Chamber of Thrift Banks, the Rural Bankers Association, and the Microfinance Council of the Philippines. Cooperatives are represented by two federations, both of which belong to the Asian Confederation of Credit Unions.

Government-managed institutions operating at the meso level serve mainly as sources of wholesale capital. These include the Land Bank of the Philippines (LBP) and Development Bank of Philippines (DBP), which offer wholesale loans to rural banks and cooperatives, as well as the People's Credit and Finance Corporation (PCFC) finance company. The Philippine Central Bank also runs a rediscounting facility for microfinance banks. In addition, the Government People's Development Trust Fund (PDTF) was established to build capacity among MFIs. While they are able to access a range of sources of loan capital, access to the national transfer payment systems is extremely limited for rural banks and cooperatives, which limits certain services such as remittance transfers and ATM services. However, rural banks and cooperatives have adapted to this by setting up direct linkages with commercial banks and international remittance companies (Western Union and Uniteller) and are now making arrangements with cell phone companies to facilitate remittances. Also larger rural banks have now offer ATM services as well.

Even though the commercial banks and the rural banking industry has excess liquidity, there continues to be a large number of donor-funded and government-run wholesale lending facilities which further limit the interest of banks to develop commercial linkages. While the existence of these facilities has ensured that financial institutions have access to lending capital, it has also created a disincentive to capture savings. It should be noted however that both the MABS and CUES projects continue to emphasize the importance of savings mobilization, both as a source of inexpensive capital for their partners and as a valuable service to clients who have traditionally lacked access to savings.

Macro Level

Maintaining a supportive legal and regulatory environment is the ultimate responsibility of the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC). While the BSP and PDIC are responsible for supervising and regulating banks, the Cooperative Development Authority (CDA) regulates cooperatives and the Security and Exchange Commission (SEC) regulates nongovernmental organization (NGO) lenders. Microfinance organizations operate in a well-developed policy environment, as evidenced by the robust body of legislation regulating the sector. USAID has worked to build the capacity of regulatory bodies through the Credit Policy Improvement Project, as well as through the MABS and CUES projects.

The island of Mindanao is one of the poorest, most isolated areas in the country. The island is also home to a significant Muslim population and is considered a key front in the global war on terror. For years the island has suffered from separatist violence, and both the MABS and CUES projects have faced the inherent risks of working in a conflict environment. Because of the perceived conflict situation, there was little microfinance activity in Mindanao before the projects started. Both projects have seen staff, partners, and clients directly affected by the conflict.

III. PROJECT PROFILES

The MABS and CUES projects operate principally with retail microfinance service providers at the micro level. MABS builds the capacity of rural banks; meanwhile, CUES improves the soundness of credit unions and has introduced a new financial product integrating credit and savings with education. Although each project works with different types of financial institutions, both have adopted similar institution-building approaches, using best-practice models to encourage partners to reach higher standards of practice and creating brand names for high-performing partners. Each project also supports meso-level associations, networks, and service providers and macro policy and regulatory reforms.

Neither CUES nor MABS offer subgrants for lending capital, which is an important departure from the typical umbrella project design. WOCCU's approach to credit union (CU) capacity building discourages cash grants on principle, although partners do receive in-kind assistance in the form of commodities and technical assistance. Chemonics made some use of small grants early in project implementation to support microfinance salaries and MIS installation. Both projects have leveraged other incentives to encourage partners to pursue best practices, such as awards for strong performance, positive peer pressure, and assistance with branding.

- **Microenterprise Access to Banking Services (MABS)**

The aim of MABS is to accelerate economic growth in Mindanao by supporting rural banks (RBs) and cooperative rural banks in serving the largely untapped microenterprise market. MABS was designed based on the hypothesis that demonstrating the profitability of reaching down to micro borrowers and depositors would create a positive incentive for rural banks to offer financial services to rural micro business owners. The Rural Bankers Association of the Philippines (RBAP) and the Mindanao Economic Development Council (MEDCO) were key partners in reaching these goals. MABS is being implemented in two phases: MABS I ran from 1998 through 2002, while MABS II is contracted to run from 2002 through 2007. The contract to implement MABS was awarded to a for-profit firm, Chemonics International, after a full and fair request for competitive proposals. MABS expanded its geographic converage from its original offices in Mindanao to include the islands of Luzon and the Visayas. It now has two offices that cover the three regions.

Table 3: MABS Project Profile	
Project name	Microenterprise Access to Banking Services (MABS)
Geographic coverage	Began in Mindanao, expanded to Luzon and the Visayas
Procurement vehicle	Contract
Implementing organization	Chemonics
Project duration	MABS I: 1998 -2001; MABS II: 2002-2007
LOP budget	$17.4 million, as of April 2005
# of LT expatriate personnel	4 LT expatriates until 2001, 1 LT expatriate since 2001
# of subcontractors	30 local subcontractors, 7 international subcontractors
Amount subcontracted	$525,365
# of grantees	62 (grants ended in 2001)
Amount granted to retail	$143,722
Number and types of beneficiaries	• 82 rural banks with a network of 260 branches • 239,910 total cumulative number of new micro borrowers and 311,260 total new micro depositors • 80% of the borrowers are female

The MABS approach

The MABS project provides technical assistance and training and other support as incentives to follow microfinance best practices. The goal of this approach is for rural banks to learn techniques for profitably moving down-market to offer microenterprise deposit and loan services. As described in Box 1, key elements of this approach include training in market research, product development, loan administration and management, and product and operations monitoring. The approach also promotes intensive staff training, enhanced staff supervision, continuous performance monitoring, and staff incentives schemes.

Box 1: Key Elements of the MABS

Approach to Best Practices

- Zero tolerance towards past due payments
- Loan approval based on ability to pay rather than collateral
- Loan terms and repayment based on cash flow
- Management reports to track profitability by product
- Measurement of portfolio at risk (PAR) rather than past-due payments
- Market research on interest rates, loan volume estimates, and desired loan terms prior to opening a new branch or introducing a new product

To become MABS partners, rural banks must meet defined selection criteria, including demonstrating a committed interest in microfinance, sufficient liquidity to invest in microfinance operations, a Central Bank CAMEL rating of 3 or above, and a strong overall portfolio with less than 15 percent nonperforming loans. Selection criteria for MABS Service Providers include experience with bank operations (ideally in microfinance) and commitment to developing commercially viable services for banks and MFIs. If accepted, they begin an intensive training period of 4 to 6 months, followed by 12 to 18 months of monitoring, evaluation, and further assistance as required. None of MABS partners received USAID support previous to the project.

After two years of partnership with MABS, rural banks are considered to have "graduated" from direct intensive assistance and are required to pay for further technical assistance. As MABS partners, rural banks are expected to make these services a regular part of their portfolios. To ensure that rural banks sustain their microfinance operations, MABS insists that partners not create external "MABS microfinance offices," which will close when the project ends, but rather build permanent microfinance units within the bank itself.

In the first phase of the MABS project (1998 to 2001) training and technical assistance was delivered directly by MABS staff, and participating pilot rural banks received grant support on a declining basis. This support was initially 100 percent of the cost for the initial four microfinance staff hired by the bank for the first year of pilot testing, declining to 50 percent for the second year. Subsequently, grant support was reduced to 100 percent of staff costs for 6 months and 50 percent for 12 months. After proving the profitability of its approach, MABS stopped offering direct staff subsidies altogether in 2001, with exceptions for a few very weak rural banks in the Autonomous Region in Muslim Mindanao (ARMM). Over the course of the project, grants for microfinance staff salaries and information system upgrades totaled approximately $143,000 to 51 RBs.

With phase two, MABS began to implement a more market-oriented approach to service delivery. Rather than offering direct assistance and subsidies, MABS provided training of trainers to private service providers to deliver the "MABS Approach" on a competitive, fee-for-service basis. To date, 2 local firms have been certified as MABS Service Providers and more than 46 RBs have participated in the certified MABS Approach to microfinance training and technical assistance package. Rural banks wishing to attend a MABS-certified training pay the service provider directly and, upon successful completion of the course, can apply to MABS under the Special Activity Fund to reimburse half of their costs (approximately $1,350).

Along similar lines, the project developed the MABS Technical Resource Person (MABSTeR) program, which offers training of trainers to rural bank staff to become in-house resource people. Some MABS banks have taken this approach one step further and opened MABS Learning Centers to train other banks interested in the MABS approach on a fee-for-service basis. Equally successful has been the project's introduction of the EAGLE Award for high-performing rural banks. Signifying Efficiency, Asset quality, Growth, Liability structure, and Earnings, the EAGLE award is much sought after, as it gives public recognition to high-performing banks.

MABS hired a local information technology company to develop the RB2000 Management Information System, a reliable, user-friendly software package designed to meet the accounting and reporting needs of rural banks. While MABS offers the software to its partners for free, all other costs of installation are paid by the banks themselves. Currently 70 rural banks are using the RB2000 software. Demand for RB2000 is particularly strong not only due to its functionality, but also because MABS has worked closely with banking regulators to have the system certified as meeting Central Bank reporting requirements. MABS is also experimenting with other technology-based solutions, such as using hand-held personal digital assistants for loan processing and collections and cell phone text messaging to handle loan payments and remittances.

MABS outputs

As a result of MABS, rural banks have built broader client bases for both deposits and loans, developed new products, grown their businesses, and increased profits. Other benefits include motivating bank staff to achieve higher performance levels and improving the image of rural banks in local communities. By promoting zero tolerance for late payments, MABS has helped partner banks reduce PAR rates to an average of around 6 percent, while reaching out to a total of more than 89,000 active micro loan clients with an outstanding portfolio of $11.2 million, up from 85 active clients and $8,200 in loans outstanding at the beginning of the project.

In promoting deposit mobilization, MABS has helped open up an untapped source of capital for rural banks, which currently serve more than 880,000 active micro depositors with more than $21 million in savings, up from 569,000 active micro depositors these banks served prior to work with MABS. Perhaps the clearest indicator of the popularity of the MABS approach is that rural banks are adopting it for their regular non-microfinance loan operations, and larger banking institutions unaffiliated with the project such as Thrift Banks are interested in employing the approach to move down-market. MABS has consistently met or exceeded USAID performance targets, as detailed in Table 3.

Table 4: MABS Goals vs. Performance	
Phase 1 Goals (1998 – 2001)	**Phase 1 Performance (1998 – 2001)**
48 Participating rural bank units*	71 Participating rural bank units
15,000 Active micro borrowers	19,975 Active micro borrowers
28,000 New Micro depositors	77,328 New Micro depositors
Phase 2 Goals (2001 – 2004)	**Phase 2 Performance (2002 – 2004)**
180 Participating rural bank units	198 Participating rural bank units
57,500 Active micro borrowers	65,449 Active micro borrowers
125,000 Cumulative new micro borrowers	156,818 Cumulative new micro borrowers
200,000 New Micro depositors	311,216 New Micro depositors
Phase 3 Goals (2004-2007)	**Phase 3 Performance (2004-Nov 2005)**
350 Participating rural bank units	260 Participating rural bank units
250,000 Active micro borrowers	89,301 Active micro borrowers
500,000 Cumulative new micro borrowers	238,910 Cumulative micro borrowers
400,000 New Micro depositors	311,216 New Micro depositors

*Bank units include all head offices and branches of participating banks.

- **CREDIT UNION EMPOWERMENT AND STRENGTHENING PROJECT (CUES)**

Aiming To Revitalize Mindanao Credit Unions From Top To Bottom, The Cues Project Has Been Implemented In Two Phases. The First Phase, From 1996 Through 2002, Focused Primarily On Model Credit Union Building (Mcub), An Institutional Strengthening Program For Individual Cooperatives, While The Second Phase Has Concentrated On The Development Of A Model Credit Union Network As A Meso-Level Association Of Top-Performing Cooperatives. The Project Was Originally Funded Through An Implementation Grant Project (Igp) Grant From The Usaid's Microenterprise Development Office. Based On The Early Success Of Cues, The Philippines Mission Decided To Fund Cues Ii And Took Over Management Of The Project From The Md Office. The Cues Ii Cooperative Agreement Runs From 2002 through Februrary 2006.

The CUES approach to strengthening credit unions is based on savings-led growth, balanced with financial discipline. The project has six main components: institutional strengthening, savings mobilization, credit administration, marketing, training and short-term technical assistance, and legal and regulatory framework soundness. Efforts to improve the macro legal and regulatory environment have been ongoing during both phases. In addition, CUES' lead implementer WOCCU partnered with Freedom from Hunger to roll out a new product, Savings and Credit with Education (SCWE), which aims to empower low-income rural women by building their skills and confidence through group borrowing and training in non-financial topics like health and nutrition. Currently CUES operates out of three offices, located in Davao, northern Mindanao, and the Vasayas, with 35 full-time employees.

Table 5: CUES Project Profile	
Project name	Credit Union Empowerment and Strengthening Project (CUES)
Geographic coverage	Mindanao and the Visayas
Procurement vehicle	Cooperative agreement
Project duration	CUES I: 1996-2002 ; CUES II: 2002-2006
LOP budget	CUES I: $3.75 million; CUES II: $3.5 million
# of LT expatriate personnel	1 LT expatriate until 2002, 0 expatriates since 2002
Implementing organization	World Council of Credit Unions (WOCCU)
Subcontractors/recipients	Freedom from Hunger/SCWE
Amount subcontracted	$768,681
Types of institutional beneficiaries	Cooperatives
Number and type of beneficiaries	48 cooperatives with 112 branches, 512,013 clients, 75% women
Amount granted to retail	CUES I: $351,945.22; CUES II: $317,892.57 through 9/30/05

CUES methodology

A key part of CUES methodology is the PEARLS analytical framework – PEARLS stand for Protection, Effectiveness, Assets, Returns, Liquidity, Signs of growth – for monitoring credit union performance. The PEARLS system includes a software package that generates 46 quantitative financial ratios in a range of reporting formats. Every month CUES partners send their PEARLS data to the project, where they are aggregated and analyzed. The project uses a subset of 13 PEARLS ratios to determine whether credit unions have met the criteria for the Finance Organizations Achieving Certified Credit Union Standards (FOCCUS) award. FOCUS is conceptually similar to the EAGLE award in measuring and rewarding performance against best-practice benchmarks. FOCCUS awards are given at three levels: silver, gold, and platinum. In addition to rewarding top-performing CUs, CUES maintains a "watch list" of cooperatives that are not reaching their performance targets and has decertified CUs that have failed to make the changes required to achieve performance standards.

CUES selects its partner credit unions based on an assessment of potential for growth, quality of financial control systems, and openness to change. To qualify as a CUES partner, credit unions must meet the FOCCUS silver standard; among other ratios, this standard requires that CUs maintain a delinquency rate of 10 percent or less. After selecting its partners and carrying out individual institutional diagnostics, CUES generates a work plan and an agreement for each credit union. Through these agreements, CUES frequently provides in-kind assistance in such areas as marketing, branding, and physical improvements to its partner cooperatives, as well as technical assistance and training from CUES staff. Partners are not required to pay for support from CUES. None of CUES partners received previous USAID assistance.

As a complement to its technical assistance to individual partners, CUES has also undertaken several credit union industry building initiatives. These include a training-of-trainers program in the model credit union methodology called the Credit Union Trainers for Empowerment (CUTE). The CUTE program is intended to build a cadre of skilled trainers that will complement CUES staff capacity and serve as resource persons for credit unions after the project ends. CUES has also promoted creation of a Model Credit Union Network (MCN) as a second-tier association of top-performing cooperatives. MCN focuses on promoting professionalism, sound management, and quality services among cooperatives. Officially registered with the Cooperative Development Authority in 2004, the MCN is supported by dues from member CUs.

Early in project design, WOCCU managers realized that unless improvements took place in the broader legal and regulatory environment for cooperatives, CUES model credit unions and network would continue to face major obstacles to profitability and sustainability. As a result, CUES has worked both formally and informally to improve the policy environment and has endeavored to serve as a technical resource on credit union development for the government. One example of the role WOCCU has played in this regard is the Cooperative Development Authority's adaptation of the PEARLS framework. CUES has also collaborated with USAID's Credit Policy Improvement Project to push for better supervision of credit cooperatives and participates in regular dialogue with the National Credit Council regarding prudential supervision norms and standards. As part of its policy dialogue with the government, CUES has supported two important pieces of legislation, with the first giving the CDA a stronger regulatory mission and focus and second creating a new Cooperative Code with a supportive policy framework and a standardized chart of accounts and performance-measurement framework.

Table 6: CUES Goals vs. Performance (2002 – 2005)*

Phase 2 Goals	Phase 2 Performance
40 Participating cooperatives	48 Participating cooperatives
332,620 Cooperative members	512,013 Cooperative members
$46,701,387 Savings and shares	$75,616,024 Savings and shares
$53,218,811 Loans to members	$68,157,159 Loans to members
$69,918,067 Total assets	$94,641,126 Total assets

*As of 09/30/05.

CUES outputs

CUES' focus on building cooperative institutional strength has worked well. In addition to the outreach goals detailed in Table 6, CUES has also had an impact on CU performance, demonstrated by the dramatic decline in average delinquency, which has fallen from 63 percent in 1998 to less than 14 percent in 2005. CUES has also created incentives to maintain high performance. Client outreach has increased dramatically under the project, rising from 36,000 borrowers and $5.9 million in loans in December 1998 to reach 512,000 borrowers and $68.1 million active loans in September 2005. Deposits have increased from $3.3 million in 1998 to $50.2 million in 2005. The dramatic growth in savings has not only increased the financial stability of CUs, but has also provided a new source of lending capital.

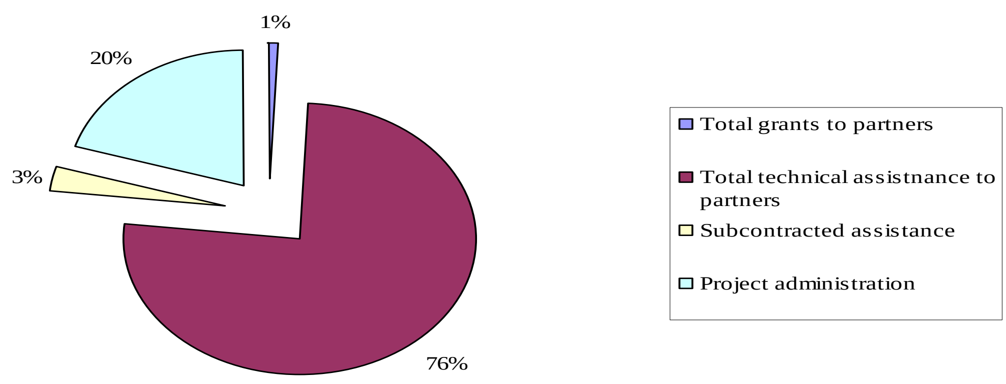
In addition, more than 1,900 savings and credit associations are now offering Savings and Credit with Education training to more than 47,000 very poor women. SCWE members have more than $2.4 million in loans outstanding to 40,750 active clients, with an average loan size of about $60 and a PAR of 8.47 percent. In addition, SCWE members have saved more than $666,000, with an average per-client micro savings of $14. CUES has consistently met or exceeded USAID performance targets, as detailed in Table 6.

IV. COST PROFILE

MABS costs

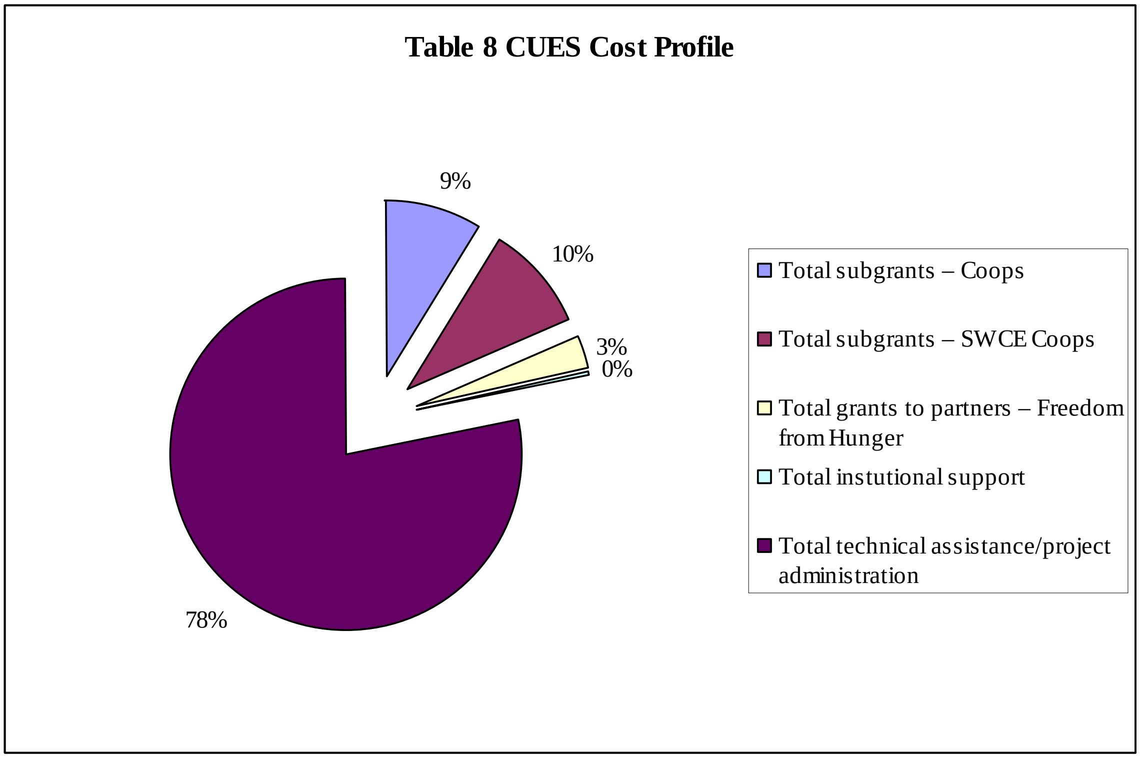
Total project expenditures for MABS I and II since 1998 are over $17.2 million. Of this amount, $13.1 million, or 76 percent, has been spent on technical assistance to partners. Project administration expenses totaled $3.5 million, or 20 percent of the total budget. During MABS I, grants to partners for staff salaries and MIS installation totaled $143,000, or less than 1 percent of the project's budget. Subcontracts for services like MIS development and training materials came to $525,000, or 3 percent of budget.

Table 7 MABS Cost Profile



CUES costs

The CUES I and II projects have expended more than $6.5 million in project funds since 1996, including $5 million on technical assistance and administration – that is, 78 percent of its total budget. WOCCU does not separate expenses for technical assistance from project administration costs, so a direct comparison between relative levels of spending for MABS and CUES is not possible. In-kind grants to CUES partners totaled $585,000, or 9 percent of the budget. Implementation of the Savings and Credit with Education component cost $635,000, just under 10 percent of total expenses. Finally WOCCU's subgrant to Freedom from Hunger totaled $194,000, or 3 percent of the budget.



V. CASE STUDY LESSONS RELEVANT TO STUDY HYPOTHESIS

Coordinate and build synergies between umbrella projects. An important advantage of implementing two different umbrella projects in the same region at the same time is the potential for synergies between projects. Both the MABS and CUES projects have encouraged formal and informal knowledge sharing with the microfinance intermediaries, the Philippine government, and each other. The projects are in close communication. The COPs of both projects meet twice monthly with the Economic Growth office at USAID and staff from each project are invited to attend events sponsored by the other. In addition, each project keeps a close eye on new initiatives and ideas launched by the other and where these new ideas are relevant, adapts them to serve their own clients. For example, MABS borrowed the idea for the MABSTERS training of trainers from the CUTE program developed by CUES. MABS also modeled their EAGLE awards on the FOCCUS award initiated by CUES. Finally, both projects have presented a unified front in supporting best practices, promoting knowledge sharing, and encouraging transparency. By working at several levels simultaneously, there is a strong potential for synergies in cross-targeting retail- and macro-level partners with the same message – for example, good practices in reporting.

Encourage meso-level knowledge sharing. MABS and CUES have both endeavored to share knowledge through different channels. MABS holds regular regional and national roundtable discussions, inviting all participating banks to learn from each other, discuss experiences, and share new ideas. They have also funded case studies of MABS partners, which are used to highlight lessons learned in implementing the MABS approach. CUES facilitates knowledge sharing through quarterly newsletters, monthly meetings with members, and regular networking to share new ideas and lessons about best practices. CUES expects that the Model Cooperative Network will be the long-term institutional home for promoting best practices and high standards for CUs.

CUES has built on the sense of community among cooperatives to encourage information sharing, while MABS has had to be more sensitive to concerns over confidentiality among its competing partners, especially larger banks. In meetings with partners, WOCCU openly discusses members' PEARLS data in detail as a way of creating peer pressure to improve performance. Because MABS partners often compete in the same market, the project has taken a different approach and does not reveal detailed performance data on individual partners. However, MABS endeavors to create opportunities for partners to share their experiences through less direct – and less sensitive – such as case studies, videos, and seminars in which partners can share success stories and lessons learned without the risk of leaking confidential information. Both projects learned that finding a comfortable level of information sharing can be challenging, but starting with less-sensitive information and building a sense of trust and community among partners can help expand their comfort zones and willingness to openly discuss performance issues.

Leverage non-financial incentives for change and accountability. In a typical umbrella programs with a grant-making component, the project manager's ability to cut off financial support assistance to non-performing grantees helps ensure accountability. The approach used by MABS and CUES raises an interesting question: How, in the absence of significant subgrants, does an umbrella project manager maintain accountability for the performance of its partners? As an alternative to financial incentives, MABS and CUES created highly prized awards – the EAGLE and FOCCUS awards – to recognize excellent performance. In addition to rewarding its partners for good performance, CUES has retained the authority to decertify them for non-performance. This approach has effectively stimulated commitment to best practices without a need for financial sanctions, resulting in increased accountability for performance to MABS and CUES and, in turn, to USAID. The lesson of this experiment is that non-financial incentives like public recognition can be as effective as financial incentives at ensuring accountability.

Focus on profitability and market-driven approaches. Rural banks are convinced that adherence to the MABS approach creates profitable new business opportunities. In fact, MABS has statistically demonstrated to rural banks that its approach to microfinance can be more profitable than their "regular" banking operations, generating gross returns that are two to three times higher than other loan products. The profitability incentive also draws consulting firms looking to become MABS Service Providers, particularly thrift bank copycats who "borrow" the MABS approach. CUES has used data from its PEARLS ratios to demonstrate the positive impact on profitability created by reaching FOCCUS standards. Simply put, CUs that have met FOCCUS standards are more profitable than those that haven't. Both projects found out that demonstrating the linkage between best practices and profitability was an excellent technique for ensuring market absorption.

Expand project focus beyond the retail level. While the initial focus of activity for MABS and CUES was building individual institutional capacity on the retail micro level, both projects have also endeavored to promote improved meso- and macro-level support infrastructure for MFIs. One clear lesson to an umbrella project approach is that it is not limited to working with one type of provider or at one level of industry. Key elements of the projects' expanded focus is their work in developing meso-level infrastructure and supporting the development of a strong macro institutional framework for the microfinance sector. For example, the projects designed best practices branding as a key technique to ensure the longevity of their approaches in the market after their projects ended. However, both implementers realized that creating a market identity for best practices standards was necessary, but not sufficient without also building some form of institutional home for these standards. RBAP and MCN will become the institutional standard bearers of their brands. Each project has also sought to create a cadre of trained professionals, such as MABS service providers and MABSTeRs and CUTE technical specialists, who will continue to be resources on best practices.

- On the meso level, MABS has built capacity within the RBAP to monitor MABS Service Providers, Learning Centers, RB2000 Service Providers, and MABSTeRs, in addition to implementing the EAGLE awards and MABS certification. CUES' meso-level partner is the MCN, a federation of 14 FOCCUS cooperatives registered with the Cooperative Development Authority as a second-tier cooperative. The purpose of the MCN is to strengthen industry-wide performance, financial soundness, and responsiveness.

- On the macro level, MABS coordinates its activities with the Philippines Central Bank, the Bankers Association Credit Bureau, and the National Credit Council. CUES has worked closely with the Cooperative Development Authority on cooperative legislation and has participated in the Technical

Working Group of the Department of Finance, National Credit Council on establishing prudential standards for cooperatives and MFIs. Both projects have worked closely with another USAID-funded umbrella project, the Credit Policy Improvement Project, which is focused on policy and regulatory reform in the microfinance sector.

Make selection of a strong COP a top priority. While direct comparison of the chiefs of party for MABS and CUES is not possible, it is clear in both cases that having a strong chief of party has been a dominant influence on the successful implementation of the projects. However, because these projects have run for close to 10 years, there has inevitably been turnover in the position of chief of party for both projects. Since 1998, MABS has had three chiefs of party and two acting chiefs of party. Since 1996, CUES has had two chiefs of party, one expatriate and one Filipino. Early in the MABS program, Chemonics responded to USAID's wishes and replaced a chief of party as the Mission was not satisfied with his performance, demonstrating that the Mission has more control over the management of the chief of party under a contract.

Although both projects have reduced the number of expatriate staff over time, localization of project management has both advantages and disadvantages. When questioned about their choice to localize the chief of party position for CUES, WOCCU explained that their ability to transfer management to a local staff person was tied to the requirements of project design and implementation. WOCCU typically relies on an expatriate chief of party with broad international experience when they are starting up a new project or testing a new approach. However, they decided that it was appropriate to switch to a local chief of party when they began CUES II because the project was already on a strong foundation and the expatriate chief of party had trained a local deputy to assume their position. The advantages of this approach are that the possibility of promotion acts as a strong motivation for local staff and that locally hired staff are considerably cheaper than international staff.

According to WOCCU, one of the drawbacks of localizing the chief of party position is that no matter how qualified a local manager may be, he or she may not always be given the same consideration by their compatriots as an international manager. An interesting observation from MABS on this subject is that an expatriate chief of party has greater immunity to local social and political pressures and is therefore frequently both perceived as more neutral and better placed to make hard decisions. So, while there are strong developmental and financial reasons for training a local manager to assume the role of chief of party, there are inherent advantages to an expatriate chief of party. Therefore the decision to localize senior management must reflect the demands and design of the project, and the on-the-ground situation in terms of specific social, political, and human resource factors.

VI. OBSERVATIONS REGARDING COMPARABILITY OF MABS AND CUES PERFORMANCE

MABS and CUES projects have been operating on the same island, in the same country, at the same time, using similar approaches to increasing the depth of financial sector outreach. Yet, although the projects share similarities, direct comparison of their outputs is less relevant than comparison of their approaches. To put it briefly, differences in design between the projects have led to differences in results.

The fact that one project is implemented by a non-profit institution (WOCCU) and the other by a for-profit company (Chemonics) has not been a determinant factor in the relative success of each of the projects. Both projects have met or exceeded project targets. Because WOCCU's cooperative agreement did not require them to separate administrative costs from technical assistance costs, it is impossible to directly compare the administrative costs of the two projects. However, the tables above indicate that MABS spent 96% of their budget on administrative and technical assistance costs and CUES spent 78% on administration and technical assistance. Similar direct comparison of the impact of each project on the development of their partners is less relevant. One reason for this is that each project requires slightly different information from their partners regarding specific financial performance, cost effectiveness and depth of outreach. Comparing general numbers such as scale of outreach is not particularly informative. For example, the CUES project now reaches more than 500,000 credit union members, up from a baseline of 36,000 members when the project started, a 14-fold increase. While the MABS project has reached more than 235,000 borrowers, its baseline was 85 borrowers, resulting in an increase of more than 3,000 percent. In other words, both projects demonstrate impressive – but not necessarily comparable – performance data.

Both projects have proven that their approach works and both have been very successful at reaching their chosen target groups. Both have also learned from each other and borrowed from each other. As noted above, each project has achieved more synergies on the micro-, meso-, and macro levels as an umbrella project that it would have been able to do as a single-purpose, stand- alone project. At the same time, the two projects have had greater impact than they would have operating alone because they were able to collaborate with each other formally and informally.

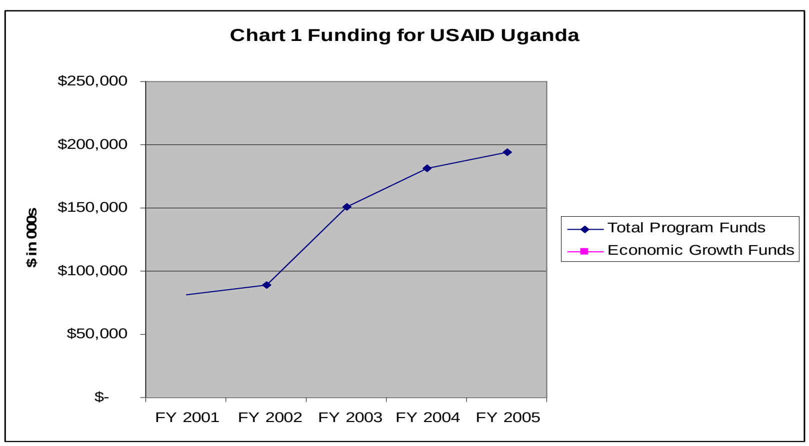
Case Study: USAID/Uganda

Although USAID/Uganda has been a strong supporter of microfinance since the early 1990s, its initial support was opportunistic rather than strategically focused on supporting the nascent microfinance industry.[38] By 1996, USAID had developed a strategy for supporting microfinance and had funded the first of four umbrella programs, each building on the successes and opportunities created by its predecessor. Uganda is now seen by many as one of the most mature microfinance markets in Africa, and USAID and its partners have played key roles in its growth.

USAID/Uganda was selected for this study for a number of reasons. One clear reason is that the Mission's programs have been largely successful and have had an important influence on the formation and development of the microfinance industry. In addition, USAID/Uganda has been constantly involved in microfinance for a significant amount of time – more than a decade – and has worked with a wide range of partners, from for-profit consulting firms like Chemonics to not-for-profit entities including the World Council of Credit Unions (WOCCU), commercial banks, and microfinance institutions (MFIs), as well as the Government of Uganda. The Mission has also supported a broad range of activities in the microfinance sector, all funded through an ongoing series of umbrella programs. These have included macro-level policy and regulatory reform, meso-level institution building, and micro-level support for retail-level capacity building and transformation. A final reason for selecting Uganda is that the Mission has made a conscious effort to incorporate lessons learned from past activities into the design of new projects.

I. Mission Profile

The overarching goal of the USAID Mission in Uganda is the reduction of widespread poverty. The Mission's three strategic objectives (SOs) are to increase economic growth, improve human capacity, and promote effective governance. In the Africa region, USAID/Uganda is an important and relatively well-funded Mission. Total program funding levels have increased by nearly 140 percent over the last five years, rising from $81.7 million in FY 2001 to $194.4 million in FY 2005, with an average of $139.5 million over the period.[39] Over the same period, economic growth funding has averaged just over 10 percent of the Mission's entire budget. From $10.9 million in FY 2001, such funding reached a high of $19.2 million in FY 2004, but settled back to a more typical level of $16 million for FY 2005, still a 46 percent increase over five years (see Chart 1).



In contrast to budget levels, staffing levels at the Mission have seen only a modest increase. For example, while the its budget more than doubled from 2001 to 2005, the number of staff increased by just 17 percent, from 124 to 145. Pressure to manage significantly more money with only slightly more staff has forced the Mission to reduce the number of activities that it directly manages, which in turn has increased its reliance on umbrella mechanisms.

---

[38] For example, a FINCA microfinance grant in the early 1990s was provided through the Delivery of Improved Services for Health project.

[39] The Mission received this spike in funding due largely to the Initiative to End Hunger in Africa (IEHA).

The availability of additional IEHA funds has been a valuable boon to Mission programming but has also posed challenges, requiring the Mission to change both its focus and structure to respond to IEHA's objectives and management requirements. The primary objective of IEHA is to rapidly and sustainably increase agricultural growth and rural incomes in sub-Saharan Africa to cut the number of hungry people in half by 2015. For the Mission to contribute to this objective, a shift in focus was required to address the underlying causes of hunger. Taking a broader view, the Mission restructured its portfolio to prioritize agriculture, natural resource management, and competitiveness, with a cross-sectoral emphasis on access to financial services.

The Uganda Mission currently supports economic growth activities under S.O. 7, Expand sustainable economic opportunities for rural sector growth. Interim results anticipated under this objective include increased food security and agricultural productivity, as well as increased enterprise competitiveness and an improved enabling environment. Prior to 2002, economic growth activities were funded under S.O. 1, Increase rural household income. Initiatives begun under S.O. 1 with the PRESTO project were eventually transferred to S.O. 2 and the SPEED projects after 2002.

The umbrella programs covered in this case study include the following:

- PRESTO – Private Enterprise Support Training and Organizational Development
- SPEED I and II– Support for Private Enterprise Expansion and Development
- Rural SPEED – Rural Savings Promotion and Enhancement of Enterprise Development

In addition to these umbrella contracts, other economic growth programs have been funded as cooperative agreements. The Savings and Credit Cooperative Societies Financial Network (SACCO-Net) Project was funded by the Microenterprise Development office and implemented by the World Council of Credit Unions (WOCCU). SACCO-Net sought to build institutional capacity at the retail credit union level by improving the outreach and financial soundness of SACCOs and promoting model bylaws and management policies.

II. Microfinance Market in Uganda

Emerging from two decades of social and political unrest and economic instability, Uganda has achieved a remarkable economic and social recovery over the last 15 years. In the 1990s the economy grew at an average annual rate of more than 7 percent. This phenomenon was accompanied by a notable decrease in the poverty rate, which fell from 56 percent in 1995 to 34 percent in 2000, and an increase in per capita GDP, which rose from $240 in 1995 to $320 in 2000. Even so, a recent economic slow down has seen poverty levels increase to 38 percent in 2005, a 2.7 percent decrease in the rate of growth , and a fall in per capita GDP to $270. This downturn has exacerbated growing economic and social disparities. For example, 94 percent of the population living such disparities is that a disproportionate percentage of the rural poor lack access to the kind of financial services that could help them grow a business or even cover household emergencies.

Uganda's formal financial sector is still recovering from a serious crisis in the late 1990s that saw numerous bank closings and the loss of financial services in large parts of the country. As a result, there has been a marked increase in the privatization of government banks, a consolidation of private banks, and more generally a more risk-adverse, urban-focused approach to banking. While there is a growing competition for clients in urban areas outside of Kampala and other major towns, there is little commercial bank presence. The four tiers of the financial system defined by the Bank of Uganda (BOU) are summarized in Table 1. The first three tiers are supervised by the BOU, while the fourth tier is unsupervised.

From an inauspicious beginning in the mid-1990s, Uganda's microfinance industry has grown dramatically over the last decade. With only an estimated 120,000 clients 10 years ago, the industry now includes more than 400,000 borrowers, 930,000 depositors, and over 1,500 institutions. This rapid growth was made possible by a unique combination of vision, resources, and cooperation among microfinance sector actors. With a highly entrepreneurial culture and an estimated 1.5 million people, mostly women, employed in micro and small enterprises, the potential for growth in the sector remains strong.

Table 1. Tiers of the Ugandan Microfinance Sector

Tier	Institution Type	# of Providers	Activities in Microfinance
1	National and international commercial banks	+/-8	• Lending to MFIs - Stanbic, Standard Chartered • Savings and ATMs - Crane and Nile Banks • Group and individual MF loans - Orient Bank • Savings, ATMs and salary-based lending - Stanbic and Centenary Rural Development Bank
2	Credit institution lenders and intermediate public deposits	1	• Commercial Microfinance Limited (CMFL) - the only provider in this category providing microfinance services
3	Regulated microfinance deposit-taking institutions (MDIs)	3	• FINCA • Uganda Microfinance Limited • PRIDE
4	All other microfinance providers	400+	• Single-purpose, professionally operated MFIs • Community-based organizations • Savings and credit cooperatives • Financial service associations • Multipurpose NGO MFIs

The growing maturity of the microfinance industry since 2000 has lead to an increasingly commercial approach to microfinance and greater competition for clients. While few commercial banks served micro borrowers in the past, banks have begun to realize the profit potential of capturing small savings accounts and carving out a position in the wholesale lending market to MFIs through donor-guaranteed programs.

The Association of Microfinance Institutions in Uganda (AMFIU) has developed a classification system for its 99 members based on size and financial performance, shown in Table 2.

Micro Level

According to AMFIU classifications, Grade A MFIs include the largest and best-performing institutions (such as PRIDE, FINCA, and FOCCUS) that have achieved financial self-sufficiency and are moving toward transformation into deposit-taking institutions. Grade B and C MFIs typically have an international partner and computerized systems and are moving toward best practices. In general, Grade D and E MFIs are very small, lack linkages with international partners, and are often characterized by weak governance, management, and internal controls. Grade C, D, and E MFIs tend to serve more rural and poorer clients than Grade A and B MFIs.

Meso Level

The donor community in Uganda has been a model of meso-level coordination through the Private Sector Donor Working Group (PSDG). In 2001, donors signed a formal agreement on "Donor Principles for Support of Uganda's Microfinance Sector," which included specific guidelines on funding best practices (i.e., donors should not offer free lending capital directly to MFIs). The PSDG was also a key supporter in the development and roll out of a performance monitoring tool (PMT) for financial reporting. All 15 microfinance donors have agreed to use the PMT, which has become a national and international model for reporting best practices.

Macro Level

A vital element in the growth of the microfinance industry in Uganda has been high-level support from the government. The President of Uganda has a keen interest in microfinance and the sector is considered an important component of national economic development policy. Originally housed in the Prime Minister's office, the Microfinance Outreach Plan (MOP) coordination unit was moved to the Ministry of Finance in recognition of the growing commercial focus of the industry.

Table 2. Classification System of the Association of Microfinance Institutions in Uganda

A 8 Members	B 9 Members	C 25 Members	D 27 Members	E 6 Members*
• 20,000 active clients • ≥ $444,000 in loans and savings • OSS > 90% • FSS > 90% • PAR 30 < 5%[40]	• 19,999-5,000 active clients • $444,000-167,000 loans/ savings • OSS 60%-80% • FSS 55%-75% • PAR 30 ≤ 5%	• 4,999-1,000 active clients • $167,000-$28,000 loans/ savings • OSS 35%-55% • FSS 35%-55% • PAR 30 ≤ 10%	• 999-500 active clients • $28,000-$5,000 loans/ savings • OSS ≥ 35% • FSS ≥ 35% • PAR 30 ≤ 15%	• Multi-purpose NGOs, co-ops, and projects promoting MF but not as core business

* The remainder of AMFIU's 99 members are not categorized because they do not have loan portfolios.

The Ugandan government has promulgated a strong legal and regulatory framework, including recent passage of the Financial Institutions Bill and the Micro Deposit Taking Institutions Act (MDI). The MDI Act has been held up by the World Bank as an example of best practices microfinance legislation because it focuses on integrating microfinance into the larger financial system as well as protecting micro savers. Despite the relative sophistication of the country's microfinance industry, important macro-level gaps and risks have yet to be addressed; for example, a legislative framework for regulating SACCOs and protecting consumer financial information is not yet in place. Because of the popularity of microfinance with the government, there is a latent risk of over reliance, unrealistic expectations, and political pressure on the industry. In addition, the government's well-intentioned but ill-considered support for unsustainable rural MFIs has had a distortionary effect on the market for financial services.

III. Project Profiles

- ***Private Enterprise Support Training and Organizational Development (PRESTO)***

The PRESTO project started in February 1997, a time when the MFI industry was in period of rapid but unfocused growth. Its overarching and ambitious goal was to build and strengthen the Ugandan private sector. PRESTO's micro-level objectives were to increase the availability of credit, encourage savings, increase entrepreneurship, and promote individual business ownership. On the meso level, its objectives were to strengthen business associations and promote private sector dispute resolution. Its macro-level objectives were to improve government services, strengthen the private sector's advocacy capacity with the government, and increase tax collection and fairness. The three components through which PRESTO sought to achieve its objectives were the Center for Microenterprise Finance (CMF), the Business Associations Initiative (BAI), and the Policy and Regulatory Reform (PARR) initiative. PRESTO was a performance-based contract, which

[40] OSS – Operational Self-Sufficiency (Operating Revenue/Financial Expenses + Loan Loss Provision + Operating Expenses); FSS – Financial Self-Sufficiency (Adjusted Operating Revenue / Financial Expenses + Loan Loss Provision + Operating Expenses + Adjustments); PAR 30 – Portfolio at Risk (Portfolio at Risk over 30 Days/Average Gross Loan Portfolio).

meant that the prime contractor Management Systems International (MSI) and its subcontractors were paid for achieving specific targeted objectives.

PRESTO Methodology

The three components forming the basis of PRESTO's methodology are described below.

- *Center for Microfinance (CMF).* CMF supported strengthening of the microfinance industry by disseminating international microfinance best practices and lessons learned to MFI management and staff, government, and donors. CMF managed a grant facility for MFI institution-building through the Financial Services Grant Program (FSGP), a business development services (BDS) grant facility called Sub-Sector Technology Innovation Grants (STIG), and a training and technical assistance program through the Institutional Capacity Enhancement Program (ICEP). CMF also managed a microfinance forum, a best practice library, publications, and a Web site. In addition to issuing and managing its own grants, PRESTO was responsible for supervising $5,600,000 in grants made by USAID/Uganda to MFIs and banks involved in microfinance.

- *Business Associations Initiative (BAI).* Through BAI, PRESTO worked to increase the participation of small and microenterprises (particularly female-owned enterprises) in business associations, and build the capacity of such associations to offer better services and more effectively represent members. BAI staff provided technical assistance such as organizational assessments, strategic planning, staff training, and service improvement. It was composed of four subcomponents: subgrants to increase the participation of women in business associations, training and technical assistance to business associations, creation of a center for resolving commercial disputes, and establishment of a credit reference bureau.

- *Policy and regulatory reform (PARR).* The main objective of PARR was to facilitate business policy reform and promote streamlining of bureaucratic policies, regulations, and procedures. Technical assistance was also provided to ensure that PARR's recommendations were acted on and improved policies implemented. PARR worked with the government and businesses to identify constraints to growth and recommend solutions to increase transparency and enhance accountability. It also lobbied for the Regulation Participation Act (RPA) to ensure the private sector's input in government rule making. Specific issues that the PARR focused on include advocacy, business registration, work permits, tax appeals, and employee share ownership plans.

PRESTO Outputs

Over the course of the four-year project, PRESTO supported important developments in the microfinance industry on several levels.

On the micro level, the training and grants PRESTO provided to its partners had an important demonstration effect across the industry. The project's stringent requirements for receiving technical and financial assistance successfully narrowed its pool of partners to MFIs willing to make the changes required to become best practice microfinance providers. As a result, many socially oriented NGOs transformed their microfinance activities into professionally run, commercially oriented, single-purpose finance companies. Many MFI leaders still talk about how initially failing to meet the requirements of PRESTO's grant program was an important lesson in their institutional development. In addition to the dozen MFIs that derived significant benefits from CMF grants and improved their scale, sustainability, and financial performance, hundreds of other microfinance providers did not receive funding but still witnessed firsthand the benefits of following a commercial approach to microfinance.

Table 3. PRESTO Program Profile	
Project name	Private Enterprise Support, Training and Organizational Development
Geographic coverage	Uganda
Procurement vehicle	Performance-based contract
Implementing organization	Management Systems International (MSI) managed the Policy and Regulatory Reform (PARR) and Business Associations Initiative (BAI)
Project duration	March 1997 to February 2001
LOP budget	Total budget of $8.4 million
# of LT expatriate personnel	Three expatriate managers Three Emerging Markets Development Advisor interns
# of subcontractors	Price Waterhouse Coopers managed the Center for Microfinance (CMF)
Amount subcontracted	$2.5 million
# of grantees	15 business associations 13 MFIs 12 appropriate technology firms
Amount granted	$480,000 Business Associations Initiative (BAI) $225,000 Sub-Sector Tech Innovation Grants (STIG)
Number and types of beneficiaries	2,100 trainees 170,000 borrowers 442,000 savers 6,750 business association members

At the meso level, PRESTO was actively involved in formation and development of the Microfinance Forum (MFF), which became a major venue for promoting microfinance industry commercialization, advocacy, and information exchange. In addition, CMF played a major role in coordinating donors and promoting funding of best practices. In addition, PRESTO founded the Center for Arbitration and Dispute Resolution (CADER) and the Credit Reference Bureau (CRB) in the Uganda Institute of Bankers.

On the macro level, PRESTO built a close working relationship with the government's Poverty Alleviation Project (PAP) and was able to successfully lobby the government to adopt a more commercial, private sector-oriented approach to supporting microfinance. CMF was particularly influential in encouraging the Bank of Uganda to establish appropriate regulation and supervision structures.

In addition to its qualitative impact, PRESTO had quantitative outputs, including the following:

- Trained more than 2,150 participants in such topics as MFI management, best practices, entrepreneurship, customer service, tax appeals, and advocacy
- Issued 15 grants through BAI to business associations for a total of $479,290 and provided technical assistance in advocacy, business planning, and employee ownership
- Established the independent Centre for Arbitration and Dispute Resolution
- Established a credit reference bureau

- Disbursed grants worth $5,644,975 to 13 MFIs through FSGP

- Issued $201,837 in grants to 12 firms for appropriate technology projects like solar dryers, wet processing coffee, and cassava processing through STIG

- Designed and installed computerized databases for the government's Registrar General and the Immigration Department's work permit application office through PARR

Table 4. PRESTO Targets vs. Performance (1997-2001)		
Target	**Required**	**Achieved**
Center for Microfinance (CMF)		
Number of active borrowers	90,272	169,394
New savers	43,516	219,244
Active savers	182,495	441,736
MFIs charging cost-covering interest rates	16	17
MFIs with delinquency of <10% and loan loss <5%	7	14
Business Associations Initiative (BAI)		
Increased % of women association members	30%	84%
Increased % of SME association members*	30%	0.25%
Increased UMA* cost recovery from dues and fees	85%	100%
Increased UNCCI** cost recovery from dues and fees	85%	58%
Policy and regulatory reform (PARR)		
Reduced time required to register a business	Reduce by 50% from 10 days and 8 steps	Reduced to 1 day and 5 steps
Reduced time required to obtain work permit	Reduce from 45 days	Reduced to 1 day
Distribution of three business-related publications	60,000 copies distributed	113,000 copies distributed
Establishment of Tax Appeals Tribunal	Tribunal established	Tribunal established and operational
Test model of Employee Stock Ownership Plan (ESOP)	ESOP model tested	Central Purchasing Company privatized and under employee ownership

* Actual numbers of members increased from 1,110 to 5,830.
** Uganda Manufacturers Association.
*** Uganda National Chamber of Commerce and Industry.

- ***Support for Private Enterprise Expansion and Development (SPEED I and II)***

SPEED goals. Benefiting from lessons learned during PRESTO, the design of the SPEED project (2000-2004) built on predecessor project successes and took advantage of missed opportunities. The microfinance industry in Uganda had evolved considerably since PRESTO started in 1997 and SPEED's project design reflected the changed landscape. For example, when SPEED began operations in 2000 there were significantly more donors involved in microfinance, the Government of Uganda's involvement in sector was focused on best practices, and a growing number of MFIs were ready to transform into microfinance deposit-taking institutions (MDIs). While these changes created new opportunities for SPEED, there remained important gaps in access to wholesale finance, the quality of Business Development Services, and the policy, legal, and regulatory environment the project was designed to address.

SPEED I goals were to increase access to financial services, create and expand business capacity in key subsectors, and strengthen legal and regulatory frameworks in the SME and microfinance sectors. To reach these goals, it had the following objectives: to increase SME and agricultural enterprise use of financial services and BDS use by micro and small enterprises, accelerate commercialization of the microfinance industry and supply of BDS on the meso level, and improve the policy environment for SMEs on the macro level. Each of these objectives was targeted under one of four project components: small enterprise and agriculture finance, microfinance commercialization, enterprise development, and policy environment.

Table 5. SPEED I and II Program Profiles

Project name	Support for Private Enterprise Expansion and Development
Geographic coverage	Uganda
Procurement vehicle	SPEED I: Design and implement contract using Support for Economic Growth and Institutional Reform (SEGIR) Financial Services Indefinite Quantity Contract
	SPEED II: Extension using new SEGIR Financial Services IQC task order
Implementing organization	SPEED I and II: Chemonics International
Project duration	SPEED I: October 2000 to December 2003
	SPEED II: January 2004 to December 2004
LOP budget	SPEED I: $19,252,113
	SPEED II: $1,966,157
# of LT expatriate personnel	SPEED I: 6 LT expatriates
	SPEED II: 2 LT expatriates
# of subcontractors	SPEED I: 15 international firms – ACCION, Bankworld, Crimson Capital, FINCA, IGFT, J. E. Austin, and Shorebank Advisory Services; 46 local firms
	SPEED II: 10 local firms; 2 international firms, Shorebank and Vulindlela
Amount subcontracted	SPEED I: $4,151,746 international subcontracts; $1,138,564 local subcontracts
	SPEED II: $199,735
# of grantees	SPEED I: 21 grants, including FINCA, Uganda Microfinance Union, PRIDE, Uganda Women's Finance Trust, Feed the Children, FAULU-Uganda, FOCCAS-Uganda, KASO Development Trust
	SPEED II: 0
Amount granted	SPEED I: $1,123,691
	SPEED II: $0
Number and types of beneficiaries	254,840 new microenterprises and outgrowers 349,251 microfinance jobs

A one-year extension of SPEED I, SPEED II shed the earlier project's less effective policy and BDS components to focus exclusively on finance. Its goals were to improve access to SME financial services and microfinance in rural areas. Project objectives were four-fold: strengthen financial sector capacity to address the need for rural financial services, assist top-tier MFIs in transforming into MDIs, assist selected MFIs in expanding their portfolios and improving service delivery to rural SME clients, and deliver industry-wide training to improve outreach to rural areas. These objectives were divided between two main components, SME and agricultural finance and microfinance commercialization.

SPEED I and II Methodology

A key element of the SPEED methodology was its cross-cutting focus on financial services, enterprise development, and business environment. Because the project was not constrained to working with a single sector or methodology, it was able to adjust its activities to add value to the work of other programs, serve as a catalyst by bundling services, and act as an intermediary by promoting partnerships among various actors. Key to this approach was SPEED's identification of gaps in the market chain and development of cross-sectoral responses addressing the needs of a broad range of institutions and clients.

Using what Chemonics called its Integrated Enterprise Development Growth Model, the SPEED project worked to enhance linkages between actors at different points along the value chain, from farmer producers, to associations, to wholesalers, to exporters and importers. For example, under its SME and Agricultural Finance component, SPEED identified a gap between the needs of "missing middle" small enterprise borrowers (for loans between $1500 and $250,000) and the supply of available capital. The project brokered both sides of the lending transaction, meeting with commercial banks to determine their willingness and capacity to work with SMEs, addressing the constraints inhibiting them from doing so, and identifying banking products of potential interest to SMEs. The project then worked with banks to develop and package new products and mechanisms for the SME market.

SME and agricultural finance. To increase access to financial services for SMEs and agricultural enterprises, SPEED employed an integrated and multifaceted strategy, working with a range of partners at different levels of the rural financial services market to comprehensively address their needs. For example, working with commercial bank partners, the project combined access to wholesale finance with short-term training and ongoing mentoring to ensure its partners had both the means and ability to reach new "missing middle" borrowers. Activities included facilitating partial loan guarantees for commercial banks through DCA and expanding the range of available financial services through leasing. In addition, SPEED trained and mentored commercial bank and MFI staff and management in developing products and services for rural and agricultural SME clients as well as funding for agricultural finance pilot projects.

Microfinance commercialization. SPEED's microfinance component sought to accelerate microfinance commercialization by assisting top MFIs in reaching financial self-sufficiency, transforming into MDIs, and expanding into rural areas. Partners were competitively selected based on their commitment to commercialization, financial ratios, and potential to achieve financial self-sufficiency and transform into MDIs. Partner MFIs received tailored packages of assistance integrating grant funding, technical assistance, and computer hardware and software. Within this package, assistance focused on development of business strategies, access to capital, product diversification, and portfolio growth. In addition to building the capacity of individual partners, SPEED supported microfinance industry building through initiatives including development of the Performance Monitoring Tool and supporting passage of MDI legislation.

Enterprise development. SPEED found that the key to increasing the use of BDS by micro and small enterprises in Uganda was to increase the supply of quality BDS on the micro level and to strengthen meso-level institutions. Activities undertaken to reach these objectives included strengthening the capacity of BDS providers, intermediaries, and associations to assess market opportunities and develop and deliver business services. SPEED focused it support on services for the cotton, maize, and coffee subsectors. To build sustainable capacity on the meso level, SPEED helped reposition the Private Sector Foundation of Uganda as an independent training and advocacy association for Ugandan business associations.

Business environment. On the macro level, SPEED worked with a range of government offices to improve the policy environment for SMEs and microenterprises. The primary focus points of this component were to build the capacity of the commercial justice system to resolve disputes, reorganize land and company registries, and create a long-term debt working group with senior government and private sector partners.

SPEED I and II Outputs

SME finance. SPEED had two primary accomplishments to improve access to SME finance: a significant increase in the number of commercial banks and MFIs lending to SMEs and an increase in the availability of leasing services. Specifically, the number of "missing middle" loans from commercial banks to SMEs increased nearly 500 percent, to 36,568 loans; meanwhile, lending volume increased more than 300 percent to reach $162 million and the number of clients nearly tripled, to 783,000 clients. For MFIs moving up market, the number of "missing middle" loans went from 0 at the beginning of SPEED I to 2,700 at the end of SPEED II, with a value of more than $8.5 million. In addition, with SPEED's support, the number of leases to SMEs grew by 61 percent to $16.6 million. Finally, the DCA program saw quick uptake by seven commercial banks, which issued 199 loans totaling more than $20 million. Close to 50 percent of these loans were agriculture-focused, focusing on subsectors including fish, cotton, and oil seeds.

Table 6. Performance of SPEED MFI Partners*

Indicator	Before	After	% Change
Number of borrowers	140,262	276,639	97%
Volume of loans	$9,900,000	$44,000,000	345%
Number of savers	132,133	352,333	167%
Volume of savings	$6,000,000	$17,100,000	185%

*Partners include: Uganda Microfinance Union, FINCA/Uganda, Uganda Women's Financial Trust, PRIDE/Uganda, FAULU, FOCCAS, Feed the Children/Uganda, KASO, and MED-Net.

Microfinance commercialization. The impact of SPEED on MFIs was seen in improved financial performance and outreach and movement toward transformation. (Aggregate performance figures for SPEED partners are listed in Table 6.) All nine partners were profitable at the end of SPEED assistance. Of the six partners that received assistance in preparation for transformation, four had applied to become MDIs and one had received its license to operate as a MDI by the end of the project. In addition, the Performance Monitoring Tool developed by the project, currently in use by all microfinance donors in Uganda, continues to serve as management information system for MFIs industry-wide in Uganda and internationally.

Enterprise development. Although results from this component were not considered sufficient to warrant continuation under SPEED II, some of its activities were transferred to other USAID projects. SPEED I did achieve measurable outputs in this component, including the provision of support for 65 BDS providers, reaching more than 98,000 farmers in the cotton, maize, and coffee subsectors. Among the firms assisted by SPEED, eight fish processing businesses achieved international ISO 2000 standards ratings, cotton producers increased their harvest by 50 percent to 150,000 bales, and seven coffee growers established wet processing coffee stations. It should be noted that subsector interventions that began under SPEED were superseded by other USAID umbrella programs, namely the Agricultural Productivity Enhancement Project (APEP) and the Strengthening the Competitiveness of Private Enterprise (SCOPE) project.[41]

---

[41] APEP is focused on increasing food and cash-crop productivity and marketing through improvements in production-to-market transactions, input distribution, and technology transfer to agricultural and rural enterprises. SCOPE seeks to increase the

Business environment. Although this component was not continued under SPEED II, it achieved several measurable results under SPEED I. For example, the project continued to support the Centre for Arbitration and Dispute Resolution (CADR) as a self-supporting professional business services organization that reduces legal backlog by serving as an alternative to the commercial court system. Between 2001 and 2003, the number of cases handled by CADR increased 250 percent. The project also supported the rehabilitation and reorganization of land and companies registries by installing new record-handling systems and procedures in both organizations.

Table 7. SPEED I and II Targets vs. Performance

Target	Required	Achieved
Increased number of enterprises	Not established	254,840*
Increased employment generated as a result of SPEED interventions	Not established	353,639**
Number of MFIs reaching MDI status	3	1 (3 pending)
Number of clients of SPEED-assisted MFIs and banks in rural areas	40% over baseline	213% over baseline
Increase in number of microenterprise savers	40% over baseline	167% over baseline
Increase in number of microenterprise borrowers	40% over baseline	97% over baseline
Increase in number of “Missing Middle” loans	10% over baseline	498% over baseline
Increase in volume of microenterprise savings	40% over baseline	183% over baseline
Increase in outstanding loan balance of microenterprise loans	40% over baseline	345% over baseline
Increase in volume of “Missing Middle” loans	10% over baseline	300% over baseline
Number of individuals with enhanced management skills	3,000	259,817
Increase in number of disputes/cases resolved by CADER	50% increase	248% increase

* Primarily new microenterprises.
** Primarily in new microenterprises.

- ***Rural Support for Private Enterprise Expansion and Development Project (Rural SPEED)***

Rural SPEED goals. Building on the foundation established by the two earlier SPEED projects, Rural SPEED is similar to its predecessors in its umbrella structure, but with an exclusively rural focus and an addition of a new group of less sophisticated SACCO partners. The basic goal of the project is to deepen and strengthen financial system responsiveness to rural sector demand for financial services. Rural SPEED’s two micro-level objectives are to increase access to rural financial services and increase innovation in financial products and service-delivery mechanisms. The project is divided into two technical components – institutional capacity building and new product development. Institution-building activities focus on obtaining three key results: improving the capacity of financial institutions to reach rural areas with agricultural and non-agricultural services, building strategic partnerships with commercial financial institutions, and increasing savings mobilization. Key results in the development of new products include expanding innovative service delivery mechanisms and developing new products. Rural SPEED also has a support component for program management, monitoring, and evaluation through which it manages the Strategic Activities Fund and a DCA guarantee fund.

---

competitiveness of targeted subsector clusters through improved marketing, access to financial resources, and enhanced linkages with buyers and investors.

Rural SPEED methodology. In keeping with Chemonics' Integrated Enterprise Development Growth Model, Rural SPEED has continued the capacity-building activities of its SPEED predecessors, but with a specific focus on reaching deeper into untapped rural markets. The project's approach is focused on promoting the development of innovative financial services that are integrated, demand-driven, and sustainable. Rural SPEED has actively sought synergies with other projects to leverage resources and increase impact. The project works closely with such USAID-funded umbrella programs as Productive Resource Investments for Managing the Environment/Western Region (PRIME/WEST) Project, the Agricultural Productivity Enhancement Project (APEP), and the Strengthening the Competitiveness of Private Enterprise (SCOPE) Project. The project also collaborates with USAID projects in other disciplines, including natural resource management and HIV/AIDS prevention.

Table 8. Rural SPEED Program Profile	
Project name	Rural Support for Private Enterprise Expansion and Development
Geographic coverage	Uganda
Procurement vehicle	Contract using Rural and Agricultural Incomes with Sustainable Environment (RAISE) Indefinite Quantity Contract
Implementing organization	Chemonics International
Project duration	November 2004 through November 2007
LOP budget	$ 9,917,589
# of LT expatriate personnel	3 LT expatriates
# of subcontractors	0
Amount subcontracted	$0
# of grantees	11 awarded 9 under review
Amount granted	$238,726 approved $860,324 in pipeline

Institutional capacity building. Like its predecessor projects, Rural SPEED's approach is focused on creating demand-driven solutions to building institutional capacity and removing systemic constraints in the financial services value chain. This approach incorporates a wide range of activities, all focused on improving access to finance in rural areas. For example, to promote better understanding of rural finance, the project is developing risk assessment and management toolkits for agricultural lending. It is also implementing value chain mapping studies for agricultural products, in particular, cotton, maize, and sunflower. Intensive technical assistance, training, and mentoring is provided to 10 competitively selected SACCO partners, 5 MFIs, and 2 MDIs to improve governance and financial management skills. Assistance covers such topics as agricultural loan product design, credit union regulation, and linkages with commercial banks. SPEED has also focused on adapting the PMT as a tool for improved financial management of SACCOs and MFIs. To promote stronger linkages between actors at different points along the financial services value chain, Rural SPEED seeks to promote understanding between SACCOs and commercial banks. It is developing an easy-to-use due diligence tool to help banks analyze the financial situation of potential SACCO partners and promotes banks as vehicles for wholesale loans and savings deposits for SACCOs. The project also actively supports AMFIU in its efforts to dissuade the government from imposing interest rate caps on SACCOs, MFIs, and MDIs, and in helping mitigate the impact of subsidized government-funded rural lending programs.

Rural SPEED continues to build linkages between commercial banks and SME and agricultural clients through three DCA loan guarantee programs. In addition to managing seven existing DCA bank agreements originally managed by SPEED I and II, it promotes and manages a new DCA program with five of the original banks through which more credit under revised terms is extended. USAID/Uganda has developed a third DCA program managed by Rural SPEED – a collateralized guarantee scheme for grain farmers – working with three banks offering short-term working capital loans based on warehouse receipts. Finally, to improve Uganda's extremely low savings rate, it has implemented a market survey of supply and demand for savings and organized workshops and training programs to promote savings mobilization. To this end, it is partnering with MicroSave and rural SACCOs to develop and pilot new savings products in rural areas.

Table 9. Rural SPEED Targets vs. Performance (Year 1)

Indicator	Target	Actual Performance
Weighted average PAR	< 8%	4.72%
Private-public partnerships formed	15	17
New borrowers	10,000	5,956
Value of new loans	$1,111,111	$1,128,070
Associations assisted	25	61
Agricultural firms assisted	15,600	9,940
Value of agricultural loans	$222,222	$167,229
Linkages established	3	1
New savers	17,000	9,184
Value of savings	$17,500,000	$1,773,252
New products developed	3	1
Trainees	400	510
Resources leveraged	$250,000	$76,784

Innovations and new products. Rural SPEED seeks to increase access and use of financial services in rural areas through a combination of innovative delivery mechanisms and improved products. These innovations are focused on mitigating the high cost of offering financial services in sparsely populated rural areas. Its approach to new product development proceeds systematically from needs assessments and product identification, to research and development, to piloting, to product roll out. Throughout this process, the project provides support and monitoring and, based on the results of the development process, follows up with improvements to replicate new products. Examples of innovative delivery mechanisms Rural SPEED has supported include rural mini-branches for MFIs, warehouse receipt loans for farmers, and low-cost money transfer systems for dairy cooperatives. New products promoted by the project include micro leasing, low-cost housing loans, agricultural commodity price insurance, agricultural input supply, and individual loan products.

To support its core capacity building and new product development activities, Rural SPEED manages a $2 million Strategic Activities Fund (SAF). SAF provides the project with the flexibility needed to support a cross-cutting range of partners and activities through competitive grants and contracts to promote technical innovation and build local institutional capacity. Funded activities include development of new agricultural and mortgage lending products and implementation of new delivery mechanisms, including low-cost funds transfer systems.

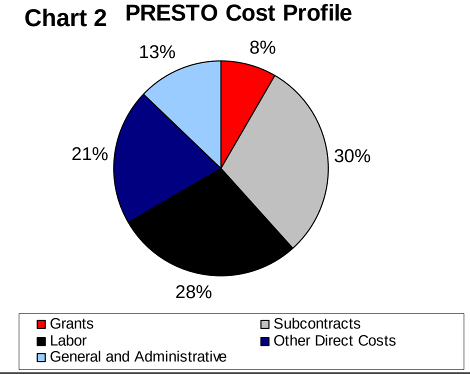
Rural SPEED outputs. After little more than a year of project implementation, it is too early to judge Rural SPEED's overall performance. Because many of its activities were carried over from earlier SPEED projects, it is also difficult to entirely separate the impact of one project from another. Further, many first-year accomplishments were intended to build a foundation for later activities, such as identification of partners and products, markets studies, product development, and business plans preparation. Even so, the project achieved many of the first-year objectives defined in its work plan. These include:

- Three commodity supply chain studies (cotton, maize, and oil seeds)
- Two training workshops for commercial banks on agricultural lending
- Two training workshops in governance and financial management for Tier 4 MFIs
- Ten Tier 4 MFIs audited
- New version of PMT designed
- Savings market survey implemented and disseminated
- Three new products piloted (individual loans and housing loan)
- Seventeen public-private partnerships formed
- Sixty-one business associations received assistance in governance and capacity building
- Five hundred MFI and bank staff trained
- One DCA guaranteed wholesale MFI loan approved
- A total of 256 DCA loans from 13 banks worth $22.5 million, $9 million in agriculture
- Eleven SAF grants approved worth $238,000, nine under review worth $860,000

VI. Cost Profiles

PRESTO cost profile. The PRESTO project expended $8.4 million in funds over its four years of operations. Expenditures for direct grants comprised 8.5 percent of the project's budget and were composed of $480,000 in Business Associations Initiative grants and $225,000 in STIG Sub-Sector Technical Innovation grants. In addition, it managed $5.6 million in financial services grants issued by USAID/Uganda. MSI's costs for technical assistance and administration were $5.2 million, or 62 percent of the budget. Subcontracts worth $2.5 million made up 30 percent of the budget, mainly to Price Waterhouse Coopers for management of the Center for Microfinance.

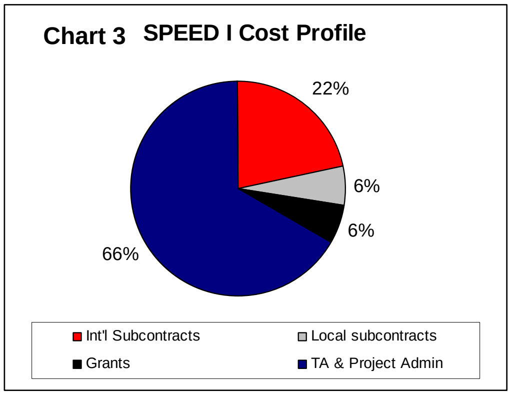
Chart 2 PRESTO Cost Profile

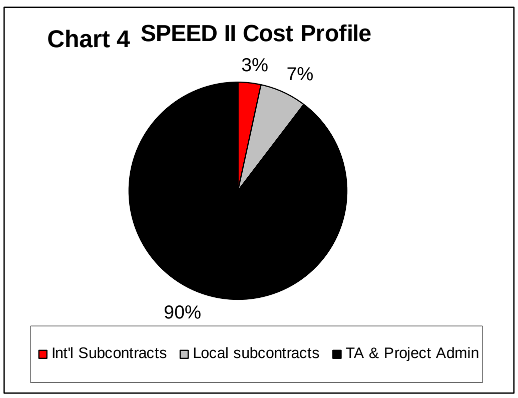


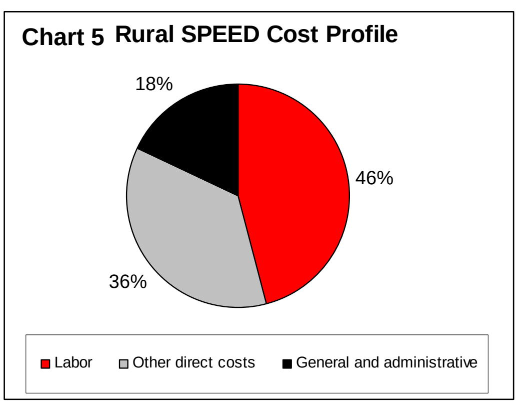
SPEED I cost profile. From 2000 to 2003, the first SPEED project expended a total of $19.2 million. Of this total, $1.1 million, or 6 percent of the project's budget, was used for grants, and another $1.1 million spent on local subcontracts. International subcontracts equaled $4.1 million, or 22 percent of the budget, mainly for long- and short-term technical assistance, research, and training. The remaining $12.8 million was spent on project administration and technical assistance provided by SPEED staff (the two figures were not reported separately).

SPEED II cost profile. During this one-year extension, SPEED II expended a total of $1.9 million, of which $1.7 million, or 90 percent, was spent on project-provided technical assistance and project administration; meanwhile, $135,000, or 7 percent, was spent on local subcontractors, and $64,000, or 3 percent, was used to pay international subcontractors. There were no grants issued under the extension.

Rural SPEED cost profile. As of October 2005, the Rural SPEED project had spent $2.2 million out of a total budget of $9.9 million. The breakdown of expenditures is as follows; $1 million, or 46 percent, on labor; $805,000, or 36 percent, on other direct costs; and $400,000, or 18 percent, on general and administrative expenses. Under SAF, Rural SPEED has $1.1 million in grants approved or under review.







While it is tempting to make direct comparisons regarding the cost profiles of these umbrella programs, the ways in which each one used and accounted for funds are sufficiently different that the results of such analysis are not particularly meaningful. For example, while grant expenditures for all four programs total $8.5 million, SPEED II did not have a grant component. In addition, Rural SPEED was the only one of the four programs that separated line items for administrative expenses and staff labor. And, in the case of programs with significant subcontract components like PRESTO, a large but unspecified portion of this line item was for the provision of technical assistance to partners.

With the significant caveats mentioned above, the following cost data are presented not for comparison but rather as simple ratios. PRESTO, which subcontracted most of its grant making to CMF, spent 25 percent of its budget on technical assistance, administration, and operations. SPEED I, which included significant in-house TA, spent 66 percent of its budget on technical assistance and administration. SPEED II, with no grant component, spent 90 percent on technical assistance and administration. Finally, Rural SPEED, the only program to break out administrative expenses, spent 18 percent of its budget on general and administrative costs.

Comparison of data on subcontracting is subject to the same limitations as other cost data. However, although such comparisons provide no detail on precisely how funds were spent, they offer a perspective on how much each program spent in-house and how much was contracted to other firms. All four programs used subcontractors, with subcontracts averaging 30 percent of total expenditures. PRESTO relied heavily on subcontracts, which accounted for 42 percent of its budget, while SPEED I spent 28 percent of its budget on subcontracts and SPEED II spent 10 percent. To date, Rural SPEED has spent 36 percent of its budget on other direct costs, including subcontracts.

VI. Lessons Learned

The length of the Uganda Mission's experience in implementing microfinance umbrella programs offers valuable historical perspective on the use of this mechanism as well as a number of interesting lessons learned. Although some lessons are specific to the Ugandan context, the Mission's success in supporting the growth of an infant microfinance industry in Uganda provides a strong example of good donor practices. Notable lessons include:

Promote early market growth via strong design and good timing. It has been argued that umbrella programs are not appropriate instruments for supporting a microfinance industry in its early stages of development. The significant impact of the PRESTO and SPEED programs in promoting the growth of microfinance in Uganda contradicts this argument. It is important to note that, while the industry's impressive progress over the last decade cannot be solely attributed to PRESTO or SPEED, their success has been enabled and supported by the operating environment, and vice versa. Introduced at the right place and time, and with the right design, the projects were able to leverage a range of ideas, resources, and partners to magnify their impact on the microfinance industry.

At the time PRESTO began in 1997, there were just a handful of serious players in microfinance in Uganda, and many actors in the industry supported unsound microfinance policies and practices, including the Government of Uganda. Yet, over time, managers of the leading MFIs as well as the government's Poverty Alleviation Project, USAID, PRESTO, and other microfinance donors began to see eye-to-eye on the need to promote a best practice-oriented approach to the microfinance industry. Without their vision and commitment and the resources they mobilized, the positive results reaped by the umbrella microfinance programs would have been less impressive. But credit must also be given to PRESTO and its designers for kick-starting commercialization of the microfinance industry. Their integrated, multifaceted intervention strategy leveraged impact by using a range of different approaches to work with a broad spectrum of partners at a various points along the financial services value chain. The use of an umbrella grant mechanism to implement this strategy meant that the program was able to create more linkages and have broader reach than a single-focus effort.

Address two key issues – management burden and staff specialization. While many USAID Missions have faced the challenge of coping with declining budgets, the Uganda Mission had to deal with an even greater dilemma. Between 2001 and 2005, the Mission experienced a 138 percent increase in budget, accompanied by an increase in staff totaling less than 17 percent. To handle the increased management burden represented by the additional funds, the Private Sector team included a policy in its 2002-2007 strategy to dramatically reduce the number of projects in its portfolio. Having successfully implemented a number of umbrella programs in the past, the Uganda Mission viewed the umbrella grant mechanism as a natural choice as a programming vehicle. Funding activities through umbrella programs allowed it to program significant amounts of funding ($39.5 million in total for PRESTO, SPEED I and II, and Rural SPEED) while delegating much of the management burden of selection, monitoring, and reporting. Through this approach, Mission staff could remain actively involved in the strategic management of projects while minimizing day-to-day administrative responsibilities. Using umbrella grant mechanisms also allowed the Mission to increase the number and range of its partners, issuing more than 40 grants to institutions ranging from sophisticated MDIs to rural SACCOs.

Developing single-purpose projects to implement the same activities would have created a significant increase in the number of contracting actions as well as separate project monitoring and evaluation, necessitating a significant increase in Mission staff. While USAID/Uganda's Private Sector team has historically benefited from having staff on board with strong experience in microfinance, their sectoral expertise was not sufficient to meet the increased management burden of implementing a number of smaller projects.

Integrate knowledge sharing as both component and result. Important to the design of all three umbrella programs was a common focus on knowledge sharing, which was incorporated as a structural component as well as a key result in each program. For example, each program was expected to develop and maintain a communications effort based on information sharing and strong reporting systems, including Internet sites, publications, surveys, reports, and regular Internal and external meetings. In addition, the Chiefs of Party of PRESTO and SPEED met monthly with the managers of other USAID-funded projects as well as program partners, government officials, and other donors. Interestingly, PRESTO and SPEED have continued to contribute to knowledge sharing nationally and internationally even after their activities were completed. For example, at the conclusion of PRESTO, all training materials were transferred to the Microfinance Competence Center (a training institute within the Institute of Bankers) and continue to be used and updated in Uganda. The Performance Monitoring Tool, originally developed under SPEED I, has been shared widely not only in Uganda and East Africa, but also in locations as far away as East Timor and Washington, D.C.

Select a basic strategy: pick winners or take a broad-based approach. Major changes in the microfinance industry since the beginning of PRESTO have had an important influence on the industry's needs and on USAID's response to these needs. For example, PRESTO focused on "picking winners," with the idea that selecting the strongest partners in an infant industry and building their capacity would let them serve as positive role models for other less advanced organizations. At the same time, PRESTO implemented broad-based activities designed to build industry capacity and improve the enabling environment for all MFIs. The microfinance industry had made significant advances by the time SPEED began operations, and its staff found that the market had already been carved up by other donor projects. SPEED therefore looked for a niche in supporting microfinance commercialization through MFI transformation and loan guarantees and linkages with formal banks. Nearly a decade after the beginning of PRESTO, the Rural SPEED program continues to support some of these now transformed MDIs along with DCA bank linkages, but has made a strategic choice of broadening its focus to building capacity among less sophisticated rural SACCOs.

One reason why none of the programs has used an exclusively narrow or broad approach to selecting partners is that each approach has a notable downside. For example, the downside of a narrowly focused approach is that many smaller organizations are excluded from the USAID-supported MFI network. While development of the Project Management Tool benefited a broad range of microfinance players, the on-the-ground situation was that the Government of Uganda and other donors like the E.U. and DfID had begun to work with many of these smaller microfinance providers. While it is too early to precisely define the downside to Rural SPEED's broader focus on SACCOs, there are clearly risks. Elements of the SACCO movement in Uganda have historically been troubled by management issues. Working with rural organizations is also more expensive and logistically more complicated, with smaller, less sophisticated organizations typically requiring more management-intensive assistance.

Integrate microfinance with business development and policy reform. While all four programs describe their approach to financial capacity building as integrated, the reality is that some were more integrated than others. The limitations of integrating different methodologies led USAID designers to concentrate more narrowly on microfinance, eventually focusing on a specific subsector of microfinance, rural finance. In part the shift in focus reflected the evolution of the microfinance industry over time, and, in part, the experience of program implementation.

When PRESTO began operations, the micro- and meso- level needs of the infant microfinance industry were broad ranging. With everything that needed to be done, there seemed to be good reason to design a single program to quickly build capacity among MFIs and BDS providers and improve the legal and regulatory environment. The impact of earlier program interventions, such as passage of MDI legislation, had reduced the need for a single program to intervene at all industry levels. In addition, USAID found that it was able to make significantly more progress with the program's microfinance component. The eventual impact of these trends was the development of a more narrowly focused design. At the same time, implementing programs specializing in a single sector has *increased* – not decreased – the need for collaboration and underscored the importance of integrating program activities with other USAID-, donor-,and government-funded initiatives.

Any theoretical discussion of the potential and limitations of integrating multiple sectors within a single program must take into consideration the real-world challenges of how integrated activities can be operationalized, including the inherent territorial tendency of organizations and methodologies. While in the grand scheme of things advocates of financial services, business development services, and policy reform all benefit when the other succeeds, there is a natural inclination to compete over resources and haggle over priority-setting. Added to this is the challenge of implementing a program with different contractors and subcontractors, all with an inherent interest in protecting their fair share of resources. In short, different budgets, contracts, and deliverables have a way of factionalizing program. In this context, integration of methodologies and activities may be well intended, but all too often poorly implemented.

Over the decade that USAID/Uganda has been implementing umbrella microfinance programs, it has mixed success at promoting cross-over collaboration among programs and among program components. Through experience, the Mission has learned that the chance of achieving real program integration is much greater if collaboration among implementers and other stakeholders is an explicit component of its design. While some managers are inherently more collaborative than others, including key results – for example, the establishment of coordination mechanisms – as an integral part of program activities creates concrete incentives for cross-coordination. In addition, the Mission has required Chiefs of Party of USAID-funded efforts to attend regular coordination meetings to promote better communications. In designing large umbrella grant programs, the Mission has found it easier to encourage cooperation between a relatively limited number of managers responsible for a wide range of activities than to coordinate with a much larger number of individual single-purpose activities and their managers.

Build a strong meso-level support service structure. The Ugandan experience has demonstrated that umbrella programs have the potential to help build a strong meso-level market for microfinance support services. When PRESTO began, there was no meso-level market in Uganda and understanding of the structure and functions of related institutions was limited. It is interesting that in promoting development of service supply and demand at the meso level, PRESTO and SPEED have had both a direct short-term and an indirect long-term impact on the market. During implementation, PRESTO supported institution-building activities at the meso level that included formation of the Center for Arbitration and Dispute Resolution, Credit Reference Bureau, and Microfinance Forum. After the program closed, the consultants and firms engaged by PRESTO as subcontractors, together with the former staff of PRESTO and PRESTO-trained MFIs, formed the core capacity of a meso-level services market. Recognizing the unique asset that this cadre of trained professionals represented, the SPEED programs went a step further and partnered with AFCAP and MicroSave to train trainers and certify consultants as microfinance service providers.

Although Uganda is fortunate in having a robust meso-level financial services market, there are limits to the technical capacity of local MFI support service consultants, dampening the willingness of some international organizations to consistently use local consultants. While international organizations cannot be accused of crowding local consultants out of the market, especially when expertise is required on specific technical topics like transformation, there is a tendency among some organizations to prefer more expensive international and headquarters staff over less expensive locally hired consultants. After a contract or cooperative agreement has been signed, it is difficult to influence decisions regarding the use of local versus international consultants. If USAID wants to continue to support the development of the meso-level financial services industry, consideration should be given at the time of program design and selection to whether organizations show a willingness to use local consultants at least some of the time.

Know, and use, the skills and credibility of the Chief of Party. The management skills of the Chief of Party (COP) obviously play a key role influencing the success of a program. But the outcome of a program is never dependent on one person, and there are a number of other factors that influence success or failure. For example, in selecting and proposing a COP, the primary focus of many consulting firms is to find a strong manager who knows how to work with USAID. However, a well-selected manager sometimes brings specific skills that can add positive value to implementation. For example, the PRESTO COP had a long-standing interest in employee share ownership plans and was able to achieve significant accomplishments in this area. Likewise, SPEED's development of the PMT would certainly not have been as successful were it not for the input of a COP with many years of experience in financial reporting.

The ability of the COP to work collaboratively with a program's management, staff, and partners has a major impact on its ability to get things done. This is particularly true in programs with a major subcontracting component and in efforts implementing activities that require interagency cooperation. In the case of PRESTO, a key component was the CMF, which was managed by a subcontractor that hired highly qualified international specialists to run the center. The ability of the COP to work closely with the CMF manager was key to the success of PRESTO as well as the CMF component. In the case of SPEED, the COP's ability to work collaboratively with a broad range of other donors, MFIs, and the government was key to the program's ability to ensure the universal acceptance of the PMT as the standard reporting format for Ugandan MFIs.

Reiterating that the skills and credibility of the COP influence the implementation of a program is self-evident. In fact, the COP's experience and training have a key influence on the way that request for proposals are solicited, evaluated, and selected, with many proposals selected in the final analysis based on the skills of the COP. However, one major difference with a COP hired under a contract is that if he or she is not performing to expectation, USAID will often ask for the individual to be replaced. In the case of cooperative agreements, USAID has yet to exert the same level of influence over COP selection or replacement.

VII. Conclusion

As noted in the latest annual report from the Rural SPEED program, ensuring contractual accountability to USAID, maintaining financial and administrative systems, and ensuring compliance with U.S. Government regulations are key results in the program's work plan. As with the other three umbrella grant programs, USAID was able to delegate fiduciary responsibility to Rural SPEED for the use of program resources, including responsibility for not only funds expended directly by the program but all funds issued as grants or subcontracts. Regular monitoring, reporting, and auditing of all program expenditures is required. The program is also responsible for issuing grant requests for applications, reviewing and selecting grant finalists, preparing and managing grants and subcontracts, and preparing summarized reports on grant and subcontract activities. Without an umbrella mechanism through which USAID could delegate accountability, the Mission would clearly have needed to hire additional staff to handle this management burden.

ANNEX F: LEVELING THE PLAYING FIELD

A Level Playing Field Analysis between For-Profit and Not-For-Profit Implementers of Microfinance Umbrella Programs

The majority of microfinance umbrellas are implemented by for-profit (FP) firms under acquisition instruments, while most microfinance single-purpose programs are implemented by not-for-profit (NFP) entities under assistance instruments, including grants, cooperative agreements (CAs), and Leader With Associate (LWA) awards. The use of different mechanisms has been accompanied by a perception among some implementers that opportunities for participating in USAID's microfinance programs are not always equal: some NFPs feel they are not afforded a fair opportunity to participate in umbrella programs as they are often (though not always) implemented under acquisition instruments; at the same time, FPs often believe they cannot participate in projects awarded under assistance instruments.

Although both FPs and NFPs are in fact eligible for *either* acquisition instruments or assistance instruments, there are numerous actual and perceived differences on the legal, regulatory, and policy levels between FPs and NFPs, and between acquisition and assistance instruments, that indirectly affect the ability and willingness of FPs and NFPs to work under different instrument types. This annex explores those differences and discusses potential policy changes that could contribute to the leveling of the playing field. The chart at the end of the annex provides a summary of significant differences as well as a list of illustrative policy and other remedies.

Why Do FPs Work Primarily Under Acquisition Instruments and NFPs Primarily Seek Out Assistance Instruments? How Can Policy Generate More Competition for USAID Awards and Level the Playing Field?

Acquisition Instruments

In general, both FPs and NFPs are eligible for the award of assistance instruments; similarly, both FPs and NFPs are eligible for the award of acquisition instruments.[42] Yet FPs tend to work under acquisition instruments, while NFPs tend to work under assistance instruments.

When competing for acquisition instruments, NFPs have two advantages over FPs, both somewhat inter-related: fee and payment method.

Fee issues. As expected by most observers, FPs normally receive fee[43] under acquisition instruments. It is somewhat less well known that there are no prohibitions to paying fee to a NFP performing under an acquisition instrument: although unusual, this does occur, and bears no relation to the organization's status as a tax-exempt not-for-profit organization, a designation linked to the treatment of revenues exceeding expenditures.

Method of payment. Inter-related with the fee issue is USAID's policy vis-à-vis method of payment. It is USAID's general policy to provide interest-free advance payments to NFPs under acquisition instruments; at the same time, USAID (and the U.S. Government) has a general policy of not providing advances to FPs

---

[42] Acquisition instruments that are set-aside for small businesses and several subcategories of small businesses are an exception because, by definition, a business is organized for profit.

[43] Fee is an increment that is paid by USAID to the implementing partner in addition to reimbursement of actual allowable costs, and represents **potential profit**. However, because the fee must also cover unallowable costs such as interest on funds borrowed, it does not necessarily represent **actual profit**, when profit is viewed as the amount of revenues that exceed expenditures (regardless of whether or not those expenditures are allowable/reimbursable).

under acquisition instruments.[44] As a result, an FP contractor must use non-USAID funds to finance performance and wait to be reimbursed by USAID, which, even with the Prompt Payment Act, can entail the contractor "floating" programmatic activities for 60 to 90 days between the incurrence of a cost and subsequent reimbursement by USAID. In contrast, by virtue of its receiving advance payments, a NFP contractor uses U.S. Government funds to finance performance.

In many, if not most, cases, USAID FP contractors – especially small businesses – borrow funds to finance performance. Interest on such borrowings is an unallowable/non-reimbursable cost under the contract and hence must be absorbed by the contractor's fee. Thus, an FP contractor's fee must cover the contractor's cost of financing performance. In contrast, any NFP contractor's fee received under an acquisition instrument would not, providing a potential advantage to NFPs working under acquisition instruments. A policy prohibiting the payment of fee to NFPs under acquisition instruments that also provides for across-the-board advance payments would eliminate some of this disparity.

Assistance Instruments

Both FPs and NFPs are eligible for the award of assistance instruments. However, USAID policy prohibits the payment of fee to the "prime" under assistance instruments, creating a significant disincentive to FPs seeking assistance instruments. The rationale for this prohibition is based on the assumption that FPs would not be carrying out USAID projects/programs were USAID not funding them to do so – that is, that FPs are organized to "sell" fee-bearing services for which only acquisition instruments would be appropriate. In contrast, it is assumed that NFPs are not usually established to be service-providers, but rather are organized to conduct the types of programs within their mandates. [45]

In reality, though, most USAID FPs exist to implement international development projects – and there is no evidence that FPs do not share the same commitment to development as NFPs.
As indicated in ADS-304.3.1 and ADS-303.5.1, assistance instruments are used when the principal purpose of the transaction and relationship is the transfer of money, property, services, or other factors of value to the recipient to accomplish a public purpose of **support** or **stimulation** authorized by the Foreign Assistance Act. The implication here is that NFPs would be implementing the programs even without USAID funding support. In truth, however, many NFPs would not be implementing the programs were it not for USAID funding. In these situations, USAID is stimulating a program. There can be a fine line between "stimulating" a program through the use of an assistance instrument and "buying" technical assistance and training services (an activity appropriate for an acquisition instrument).[46]

Thus, it is possible to legitimately and appropriately create an assistance relationship with a FP. There is nothing inherently contradictory in paying a fee and stimulating an organization to accomplish a public purpose.[47] There is no reason why fee should not be paid under assistance instruments – indeed, some U.S. Government agencies do pay fee under assistance instruments. The USAID prohibition has the practical effect of closing off FPs from a significant share of USAID's funding, and could result in other than the best-qualified organization being selected for implementation. Therefore, it may be to USAID's benefit to eliminate the prohibition on paying fee under assistance instruments.

---

[44] USAID policy makes an exception for FP contractors that award subgrants, so that the subgrant funds – but no other costs incurred in contract performance – may be advanced to the contractor.
[45] It is noteworthy that the umbrella programs implemented by NFPs that were adjudged by USAID to be successful were implemented by NFPs which tended to be more service-oriented than other NFPs active in the microfinance field.
[46] This is further blurred by the definition in ADS-304 of "acquisition" as purchasing goods or services for the direct use or benefit of USAID, without clarifying that program-funded procurements – as opposed to OE-funded procurements – are for USAID's use and benefit in implementing the U.S. foreign assistance program.
[47] With limited USAID staff and in accordance with performance-based contracting (PBC) principles of non-micro-management, many acquisition instruments actually operate the same in most substantive respects as do assistance instruments, which can also be results-oriented.

There are no comparable legal, regulatory, or policy disincentives hindering NFPs that wish to seek acquisition instruments. If anything, the provision of advance payments to NFPs under acquisition instruments and their potential ability to receive fees under such instruments, as noted above, would seem to serve as incentives for NFPs to seek acquisition instruments.

What Factors Affect USAID's Choice of the Type of Acquisition or Assistance Instrument?

As indicated in ADS-304, an acquisition instrument is used when USAID is procuring goods or services to implement its own program, whereas an assistance instrument is used to support or stimulate the recipient's program when it is aligned with USAID's Strategic Plan and performance goals. Both grants and cooperative agreements are assistance instruments, the only difference being that substantial involvement is anticipated between USAID and the recipient under a cooperative agreement during performance of the proposed program.

In accordance with ADS-304, USAID has no preference between acquisition and assistance instruments and either may be structured as "results-oriented." Assistance instruments may not be used (a) for the performance of activities over which USAID intends to exercise a substantial amount of operational control; (b) to obtain goods/services for the Government; or (c) to obtain goods/services or carry out program activities which the U.S. Government has obligated itself to provide under an international agreement, as the use of an acquisition instrument guarantees that USAID will meet its obligation, while use of an assistance instrument does not.
Other considerations in choosing the appropriate type of instrument are:

- The nature of the activity, although there are no distinct categories of activities that are better suited for one type of instrument over the other
- The type of organization expected to receive the award may have some influence from a general programmatic perspective[48]
- The fact that both instruments can be used to achieve results, although the remedies for failure to achieve stated results and outcomes are different between acquisition and assistance instruments

There are three additional factors to consider:

- In general, acquisition and assistance instruments may be used for any sector.[49]

What Is Substantial Involvement?

Substantial involvement is defined as participation or intervention by USAID and is normally limited to the following:

1. Approval of the recipient's Implementation Plans
2. Approval of specified key personnel
3. USAID recipient collaboration or joint participation, e.g.:
   - Collaborative involvement in selection of advisory committee members. USAID may also choose to become a member of this type of committee.
   - Concurrence on the selection of subaward recipients and/or the substantive provisions of the subawards.
   - Approval of the recipient's monitoring and evaluation plans.
   - Monitoring to permit specified kinds of direction or redirection because of interrelationships with other projects.
4. Authority to immediately halt a construction activity.

---

[48] Although it must not take precedence over the specific criteria provided in ADS-304.

[49] Although the work that the implementing partner is to perform, and the environment in which the work will be performed, may affect the degree of USAID "control" and implementing partner independence and, hence, the type of acquisition or assistance instruments.

- Consideration must be given to what resources are available to the USAID Operating Unit for administration of each type of instrument since acquisition instruments are generally more labor - intensive than assistance instruments.

- When a proposed activity is a follow on to a current activity, the effectiveness of the instrument type used for the existing award should be considered: even if the current instrument is working well, requirements may need to be adjusted in the follow-on activity, affecting instrument selection.

What Are the Other Major Procurement Policy Disparities That Favor or Disadvantage FFs or NFPs, and How Can These Disparities Be Leveled?

Competition. The Competition in Contracting Act (CICA) requires full and open competition for contracts.[50] The Federal Acquisition Regulation (FAR) requires that, in most cases, multiple IQCs be awarded. In most cases, the FAR requires that all awardees of a basic IQC within a given sector be given a "fair opportunity to be considered." In contrast, the Federal Grant and Cooperative Agreement Act merely encourages competition. The result is that it is much more difficult to award noncompetitive contracts then noncompetitive assistance instruments. Since FPs tend to work under acquisition instruments and NFPs under assistance instruments, the increased competition required under acquisition instruments favors NFPs.

Award processing time. It generally takes longer to award acquisition instruments than assistance instruments, resulting in delays in implementation for acquisition instruments. Since USAID does not always – and sometimes cannot – plan adequately, this may lead to award of more assistance instruments, disadvantaging FPs. This disparity can be eliminated by better program planning at the design stage.

Award protests. CICA also permits unsuccessful offerors for acquisition instruments to protest USAID requirements and USAID decisions to exclude offerors from the competitive range and to not award to a particular offeror. Often, contractors may incur additional costs in prosecuting or defending against protests; moreover, protests add to the award-processing time and may create a negative perception of the protester on the part of USAID. In contrast, there are no protests under competitions for assistance instruments. This, too, may encourage greater use of assistance instruments at the expense of acquisition instruments, disadvantaging FPs.[51]

Past performance as evaluation factor. It is U.S. Government and/or USAID policy that past performance must be an evaluation factor under competitions for acquisition and assistance instruments. Yet, although there is a formal past performance system for contractors, there is no equivalent for assistance instruments. Under assistance instruments, an applicant's past performance record is assessed primarily through informal word-of-mouth references provided by the applicant. This disparity can be rectified through the development of a formal past performance system and database for assistance instruments.

Organizational conflicts of interest (OCIs). USAID has strict rules regarding potential OCIs related to design/implement, evaluate/implement, and audit/implement that apply to acquisition instruments, which may tend to foreclose certain otherwise available business opportunities. There are no hard-and-fast OCI rules for assistance instruments, which may disadvantage FPs. Since the same types of OCI situations may arise under acquisition and assistance, there is no rationale for different rules for the instruments.

---

[50] Limited/informal competition is required for purchase orders unless specific exceptions exist and are approved by specified officials.

[51] However, the number of contract protests has been reduced in recent years as a result of the establishment of a Contract Review Board (CRB), and can be further reduced by better-written and less-restrictive SOWs and related requirements and proposal evaluation criteria, better adherence to required procedures by USAID, better debriefings by USAID, and better judgment/decision-making by USAID. All of this could result in more efficient competitions and also reduce Bid and Proposal (B&P) costs, which are part of an organization's indirect cost rate(s).

Management burden. As indicated above, assistance instruments generally impose less management and administrative burden on USAID than do acquisition instruments. With USAID staff stretched, this may encourage the use of assistance instruments over acquisition instruments. This disparity can be eliminated through the greater use of performance-based contracts (PBCs), a major precept of which is that the contractor must be permitted to perform with minimal micro-management.

Program reporting. There is broad discretion in defining the programmatic reporting requirements for acquisition instruments. In accordance with OMB Circular A-110 (as implemented in 22 CFR 226), programmatic reporting under assistance instruments cannot be required more frequently than quarterly or less than annually. FPs may experience more reporting burdens than NFPs, contributing to an increase in FP costs. It may also create an erroneous perception within USAID that NFPs are incapable of providing the same level of reporting as FPs, thereby potentially favoring FPs. Better training can correct such misperceptions.

Salary approvals. USAID does not require that recipients of assistance instruments seek salary approvals, nor are there rules pertaining to acceptable salary parameters under assistance instruments. In contrast, such rules are often required under acquisition instruments, possibly leading to a perception that FPs are less cost-conscious than NFPs. In addition, the difference may create additional administrative burdens and costs for FPs, and limit how much FPs may pay for scarce talent in a highly competitive labor market. Eliminating unnecessary salary approvals under acquisition instruments would alleviate this disparity.[52]

Key personnel approvals. Approval of key personnel is permitted under all types of instruments. However, many in USAID erroneously perceive the ability to *approve* key personnel under acquisition instruments as the ability to *direct the removal* of a key person – and contractors are ordinarily responsive to USAID Mission wishes. The misperception that USAID may direct the removal of key personnel under acquisition instruments could favor the use of such instruments, thereby benefiting FPs.

Approval of annual implementation plans (work plans). Annual implementation plans can be required under any type of instrument.[53] However, while acquisition instruments and cooperative agreements permit USAID approval of annual implementation plans, grants do not; moreover, USAID may direct the inclusion of activities within the general scope of an acquisition instrument, which is not permitted under assistance instruments. The resulting increase in USAID's ability to shape project direction may favor the use of acquisition instruments over assistance.

Subawards. Under most acquisition instruments, the implementing partner – regardless of whether the partner is FP or NFP – must receive approval for most subcontracts. Under acquisition instruments, there are some restrictions on the size of subgrants and sub-cooperative agreements may not be awarded. In contrast, there are no particular impediments or issues associated with awarding subgrants or sub-agreements under assistance instruments, nor are there prescribed procedures. [54] This can favor the use of either acquisition or assistance instruments, depending on the nature of the activity and degree of involvement desired by USAID, benefiting either FPs or NFPs.

Program income. Many microfinance programs involve revolving loan funds. Microfinance loan repayments are considered "program income." Under assistance instruments, program income may be treated in any one or a combination of three ways: (a) added to the USAID funding ("additive"); (b) used to satisfy any cost-sharing requirements; and (c) used for expenses first, before charging costs to USAID funds ("deductive"). However, rules (22 CFR 226.24[d] and 22 CFR 226.82) also stipulate that, if the recipient of the assistance instrument is

---

[52] Although some might argue that this level of oversight is necessary to control salaries because FPs will not do that on their own, that is an untested hypothesis and, in any event, imposes additional administrative burdens on USAID that may not produce commensurate benefits.

[53] Implementation plans cannot be required more than annually under any type of instrument.

[54] Under assistance instruments, all (sub)contracts and subgrants/sub-agreements that were not identified in the proposal require approval, and there are prescribed procedures for awarding (sub)contracts.

an FP, program income must automatically be treated as deductive. Similarly, the rules for acquisition instruments require that loan repayments be credited or refunded to the U.S. Government. As such treatment is contrary to the objectives of a revolving loan fund, it may serve as a disadvantage for FPs. This can be rectified by permitting loan repayments to be treated as additive for revolving loan funds, even if the recipient is an FP, and even if the mechanism is an acquisition instrument.

Termination for convenience of the U.S. Government. Under acquisition instruments, the U.S. Government has a unilateral right to terminate the contract/order for its convenience. With the exception of terminations when continued assistance would not be in U.S. national interest or would be in violation of applicable law, the closest equivalent under assistance instruments requires mutual agreement of both parties. Since many microenterprise development projects require long-term awards, and since FPs tend to seek acquisition instruments while NFPs usually seek assistance instruments, this increases FP exposure to risk and uncertainty. On the other hand, as it may be necessary or desirable for USAID to retain a unilateral right to terminate an award for its convenience in an unstable environment; this could favor acquisition over assistance instruments in certain cases.

Other actual and perceived disparities between acquisition and assistance instruments and the resulting impact on FPs and NFPs – including financial reporting and accounting requirements, audits, travel authority, approval authority for monitoring and evaluation plans and equipment purchases, budget revisions, technical directions, and changes to the statement of work – are described in greater detail in a table at the end of this annex.

What Are the Dynamics of USAID's Increasing Use of "Wholesale" Acquisition and Assistance Instruments?

There is the trend toward greater use by USAID of large, menu-driven, worldwide procurement vehicles in lieu of stand-alone acquisition and assistance instruments. More frequently, procurement transactions occur through indefinite quantity contracts (IQCs) and Leader With Associate (LWAs) mechanisms.[55] On the acquisition side, there are USAID IQCs as well as General Service Administration (GSA) and other U. S. Government agency contracts that may be used government-wide; on the assistance side, there are LWAs. Increased use of IQCs and LWAs parallels the decline in USAID staff levels and is in direct response to the length of time needed to fulfill the requirements of full and open competition.

Indefinite Quantity Contracts

USAID's basic IQC awards are normally competed by sector, and usually multiple awards must be made. Among other elements, the basic IQC contains a broad statement of work (SOW) as well as general terms and conditions that apply to each task order issued. An IQC contract does not in itself authorize the contractor to undertake work; rather, work is authorized through the issuance of task orders, each of which contains a specific SOW. Because the SOW in a basic IQC is broadly written, most IQCs are awarded to prime contractors that have formed consortia of multiple organizations representing a breadth of skill, expertise, and resources. Ordinarily, each contractor with a basic IQC in a given sector must be given a "fair opportunity to be considered" for each task order, which is a mini-competition process.

NFPs often claim they cannot successfully compete for and win IQCs as prime contractors due to their inexperience in managing large contracts. This is a classic chicken-and-egg dilemma that is not unique to NFPs. Indeed, most organizations that first seek to participate in USAID programs, whether FP or NFP, face the same problem. Historically, inexperienced organizations team up with more-seasoned groups, learning the

---

[55] USAID Business Transformation Executive Committee (BTEC), *Review of USAID Implementation Mechanisms,* draft for review, May 2005.

ropes, as it were, for a few years before setting out on their own. Some NFPs that have chosen to participate in IQC teaming arrangements have subsequently complained that they did not participate to the full extent anticipated. Given that prime contractors tend to be FPs, this has created some ill will between FPs and NFPs.

However, while there may be isolated instances of a lack of good faith on the part of some prime contractors, much of this is attributable to the indefinite nature inherent in an IQC, a contractual format that is demand-driven by USAID. The prime may actually have very little control over how actual work is distributed among members of the teaming arrangement/consortium. Even in stand-alone contracts, the SOW is generally fairly broad and under-utilization can result for reasons largely beyond the control of the prime. In any event, the issue of under-utilization is not unique to NFPs: USAID hears similar complaints from many FPs. However, as USAID has privity of contract with only the prime, it generally will not intervene in disputes between it and a team or consortium member.

Even so, there are various underlying regulations and policies reflected in each acquisition instrument as required. For example, there are requirements that each contract in excess of $500,000 must have a small business subcontracting plan. Failure by the prime to make a good-faith effort to achieve small business subcontracting goals established for the contract or order is considered as non-performance and may result in liquidated damages being assessed against the prime. There is no comparable legislation for NFPs. Thus, in order to meet its small business subcontracting goals, the prime may need to utilize a small business member of the consortium at the expense of an NFP member.

Leader With Associates

Under USAID policy, Leader awards must be competed, but, unlike IQC task orders, Associate awards do not.[56] In addition, unlike basic IQC awards, it is not necessary to make multiple Leader awards for the same work and in fact this is discouraged; thus, also unlike IQC task orders, there are no mini-competitions for Associate awards. As a result, NFPs do not incur as much B&P costs in applying for Associate awards as FPs do to win IQC task orders. This can contribute to lower indirect cost rates for NFPs, making FPs less cost-competitive. In addition, LWA arrangements, as assistance instruments, are not fee-bearing, serving as a disincentive for FPs to seek them

Is the Playing Field Between IQCs and LWAs Level – and, If Not, What Is the Impact on FP and NFP Organizations?

Although there are more IQCs than LWAs, the LWA is a relatively recently developed procurement mechanism compared to IQCs, which have been used for decades. The greater number of IQCs vs. LWAs tends to favor FPs, although NFPs do participate; in contrast, FPs generally do not participate in LWAs, favoring NFPs. In addition, competition requirements under IQCs versus LWAs favor NFPs, as does USAID's policy of not paying fee under assistance instruments. On the other hand, it can also be argued that LWAs are not obliged to provide a perfectly level playing field vis-à-vis IQCs, as the two mechanisms were never intended to serve as precise assistance equivalents.

Level Playing Field Analysis Conclusions

The study finds that the playing field between for-profits and not-for-profit is not level. A summary of the discrepancies:

---

[56] In many respects, Leader awards are analogous to a basic IQC award, while Associate awards are analogous to task orders. The aggregate value of Associate awards under an LWA arrangement may far exceed the value of the Leader award.

- There are no legal or regulatory constraints for NFPs participating on acquisition awards, whereas USAID's policy of not paying fee under assistance instruments discourages FPs from seeking assistance awards.

- NFPs avoid financing charges because they are provided with advance payments, and, since NFPs usually work under assistance instruments, they generally do not have to meet the same reporting standards.

- Also advantageous for NFPs is the fact that, competition requirements for Associate awards under LWAs are less rigorous than under IQCs. Even so, it is challenging for NFPs to competitively bid for IQCs, a procurement vehicle that is growing in popularity, as they lack the requisite experience managing large contracts.

As noted earlier, many of the perceived differences between NFPs and FPs are the result of the nature of the instrument, not the character or legal status of the implementer. For example:

- Some Mission officers seem to believe that FPs are simply more responsive than NFPs. For example, the selection and retention of a COP is central to project performance, and contractors will often replace key personnel at USAID's request. But Mission officers overseeing NFP-led umbrella programs in Central Asia and Azerbaijan indicated that the NFP implementers were quite responsive to USAID demands and fluent with reporting requirements. Ultimately, the fact is that USAID officers will select the instrument for a microfinance umbrella program that best allows the Agency to troubleshoot issues that could threaten performance.

- USAID's limitations on "substantial involvement" resulted largely from the often valid complaints voiced by the NFP community that USAID has frequently treated assistance instruments like acquisition instruments, and recipients of assistance instruments like contractors. Clearly, USAID must better understand and respect the differences between acquisition and assistance. At the same time, simply because a recipient of an assistance instrument is legally able to exercise more independence than a contractor does not justify non-responsiveness to the needs of USAID, which could conceivably result in a backlash and a shift to greater use of acquisition instruments.

Table 1. Summary of Level Playing Field Analysis

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
Pre-Award						
Competition	Required (unless waived); generally harder to waive than assistance	Required (unless waived); generally harder to waive than assistance	Encouraged (waiver required); generally easier to waive than acquisition	Encouraged (waiver required); generally easier to waive than acquisition	1. NFPs may receive more noncompetitive assistance awards than FPs receive noncompetitive contracts and incur lower Bid and Proposal (B&P) costs, which could result in lower indirect cost rates for NFPs, thereby favoring NFPs over FPs in cost evaluations 2. Assistance instrument may be inappropriately selected, thereby favoring NFPs over FPs	1. More competition for grants/cooperative agreements 2. Alternatively, less competition for contracts 3. Adhere to ADS-304
Award Processing Time (Based on USAID/M/OAA Targets)	Generally slower than assistance	Generally slower than assistance	Generally faster that acquisition	Generally faster than acquisition	1. Assistance instrument may be inappropriately selected due to inadequate planning, which may favor NFPs over FPs 2. Implementation under contracts begins later than under assistance instruments, which may favor NFPs over FPs	1. Better advance planning; adhere to ADS-304 2. Re-visit processing lead times; since competitive process is similar for both acquisition and assistance, lead times should be similar
Award Protests	Yes	Yes	No	No	1. Protests can increase award processing time and delay implementation and, hence, may inappropriately encourage assistance instruments over contracts, thereby favoring NFPs over FPs 2. Fear of protests can result in inefficient competitions, which disadvantages USAID and can increase B&P costs unnecessarily, thereby potentially favoring NFPs working under assistance	1. Better advance planning (to build-in time for resolution of protests); adhere to ADS-304; more training can lead to better decision-making and fewer protests; better debriefings can result in fewer protests; better-written technical requirements and relevant evaluation criteria can also result in fewer protests 2. More training can lead to better decision-making and more efficient

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
					instruments over FPs working under contracts 3. Protests create negative perceptions of protesters, which may favor NFPs (who work primarily under assistance instruments) over FPs (who work primarily under contracts)	competitions and lower B&P costs 3. Recognize that protests are sometimes deserved and that protester has legal right to protect its interests (and investment of B&P costs); better understanding of psychological aspects of being an unsuccessful offeror
Fee	Yes	Yes (but usually not, especially if advance payments are provided)	No	No	FPs discouraged from seeking assistance instruments, whereas there are no disincentives for NFPs to seek contracts; can result in other than best-qualified organization being selected to implement project	USAID could change its policy of prohibiting fee under assistance instruments and/or USAID could adopt a policy of prohibiting fee to NFPs under contracts (unless advance payments are not provided)
Advance Payments	No (unless specifically approved after exhausting all other possible financing mechanisms; advances can be made for [sub]grants made by FP contractors)	Yes	Yes	Yes	1. Lack of advance payments for FPs under contracts can result in higher-than-necessary fees, thereby favoring NFPs over FPs for both contracts and assistance instruments 2. Lack of consideration of cost to USG of providing advances to NFPs under contracts can favor NFPs over FPs	1. Revise FAR to change status of advance payments as least-preferred contract financing option; provide advances of (sub)grant funds to FPs making (sub)grants under contracts, thereby reducing fees for FPs 2. Consider cost to USG of providing advances to NFPs under contracts during cost evaluation of proposals
Cost-Sharing	No (seldom, if ever, required; if required, contract would also have to be non-fee-bearing)	No (seldom, if ever, required; if required, contract would also have to be non-fee-bearing)	At the CTO's discretion based on a variety of factors	At the CTO's discretion based on a variety of factors	FPs discouraged from seeking awards that require cost-sharing, thereby favoring NFPs; can result in other than best-qualified organization being selected to implement project	Better judgment and adherence to policy guidance on cost-sharing by USAID
Past Performance as Evaluation Factor	Yes (from references provided by offeror, electronic	Yes (from references provided by offeror, electronic	Yes (from references provided by applicant and	Yes (from references provided by applicant and	USAID more reliant on references provided NFPs than by FPs, which can favor NFPs over FPs	USAID should establish electronic past performance system for assistance instruments

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	past performance system, and other sources known to USAID)	past performance system [to the extent that NFPs have worked under contracts], and other sources known to USAID)	other sources known to USAID, which can include electronic past performance system used for contracts)	other sources known to USAID; no electronic past performance system [except to the extent that NFPs have worked under contracts])		
Organizational Conflicts of Interest (OCIs)	Ineligible if organization did work that led directly and without delay to the Statement of Work (SOW), or if work is related or follow-on to evaluations and recommendations performed by the same organization on a predecessor activity, or if organization did audit work for USAID unless the organization agrees not to use the information obtained through the audit for any other purpose than the audit and the auditor and auditee execute a nondisclosure agreement	Ineligible if organization did work that led directly and without delay to the Statement of Work (SOW), or if work is related or follow-on to evaluations and recommendations performed by the same organization on a predecessor activity, or if organization did audit work for USAID unless the organization agrees not to use the information obtained through the audit for any other purpose than the audit and the auditor and auditee execute a nondisclosure agreement	Discretionary by USAID on a case-by-case basis	Discretionary by USAID on a case-by-case basis	NFPs working under assistance instruments may be favored by the lack of strict exclusionary rules that apply to FPs working under contracts in identical situations because some business opportunities are foreclosed to FPs but not to NFPs	USAID could eliminate strict exclusionary rules for contracts and permit greater discretion; or USAID could apply the same strict exclusionary rules to assistance instruments in identical situations

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
Post-Award						
Management Burden	Generally more than assistance	Generally more than assistance	Generally less than acquisition	Generally less than acquisition	Limited USAID staff resources may result in more assistance instruments (thereby favoring NFPs) and fewer contracts (thereby disadvantaging FPs)	USAID can do more performance-based contracts (PBC) and adhere to the PBC principle of not micro-managing the implementing partner and letting it perform; umbrella programs can relieve some management burden on USAID
Accounting Systems	Same as assistance (FAR 31.2)	Same as assistance (OMB Circular A-122 for NFPs; A-21 for universities)	Same as acquisition (FAR 31.2)	Same as acquisition (OMB Circular A-122 for NFPs; A-21 for universities)	Although all organizations have similar accounting systems, many in USAID erroneously perceive that NFPs' accounting systems are less sophisticated than those of FPs, thereby potentially favoring FPs over NFPs	Better training can correct misperceptions and foster greater understanding that primary differences between FPs and NFPs are the types of A&A instruments under which they normally work and, concomitantly, the differences in financial reporting/billing requirements between those instruments; itcould also result in USAID not making inappropriate or unauthorized requests for financial information under assistance instruments and, possibly, selecting a different type of A&A instrument under which USAID's information needs can be satisfied; USAID can also examine the precise information really needed on a case-by-case basis and develop reporting requirements accordingly; OMB could permit greater discretion for USAID to define its financial reporting requirements/needs
Financial Reporting	Frequency: Usually Monthly	Frequency: Usually quarterly	Frequency: quarterly	Frequency: quarterly	Many in USAID erroneously perceive that NFPs' are	Better training can correct misperceptions and foster

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	Content: May be lump-sum by CLIN, but usually provide more detail Additional Financial Reporting Permitted: Yes	Content: Usually lump-sum Additional Financial Reporting Permitted: Yes	Content: Lump-sum Additional Financial Reporting Permitted: No	Content: Lump-sum Additional Financial Reporting Permitted: No	incapable of providing the same level of financial reporting than FPs, thereby potentially favoring FPs over NFPs	greater understanding that primary differences between FPs and NFPs are the types of A&A instruments under which they normally work and, concomitantly, the differences in financial reporting/billing requirements between those instruments; it could also result in USAID not making inappropriate/unauthorized requests for financial information under assistance instruments and possibly selecting a different type of A&A instrument under which its needs can be satisfied; USAID can also examine the precise information that is needed on a case-by-case basis and develop its reporting requirements accordingly; OMB could permit greater discretion for USAID to define its financial reporting requirements/needs
Program Reporting	At USAID's discretion	At USAID's discretion	Frequency: Not more frequently than quarterly, not less frequently than annually Content: As prescribed by 22 CFR 226.51 Additional Program Reporting Permitted: No	Frequency: Not more frequently than quarterly, not less frequently than annually Content: As prescribed by 22 CFR 226.51 Additional Program Reporting Permitted: No	Since FPs work primarily under contracts while NFPs work primarily under grants/cooperative agreements, FPs may be perceived as being more responsive to USAID's information needs, thereby disadvantaging NFPs	Better training can correct misperceptions and foster greater understanding that primary differences between FPs and NFPs are the types of A&A instruments under which they normally work and, concomitantly, the differences in financial reporting/billing requirements between those instruments; it could also result in USAID not making inappropriate/unauthorized requests for financial information under assistance

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
						instruments and possibly selecting a different type of A&A instrument under which its needs can be satisfied; USAID can also examine the precise information that is needed on a case-by-case basis and develop its reporting requirements accordingly; OMB could permit greater discretion for USAID to define its financial reporting requirements/needs
Audits	Auditor: Federal agency or an audit firm contracted by a federal agency Frequency: Usually every few years	Auditor: Audit firm (which is acceptable to cognizant federal audit agency or meets USG standards) contracted by recipient Frequency: Every year in which NFP expends more than $500,000 in federal funds ($300,000 nor non-U.S. NFPs)	Auditor: Federal agency or an audit firm contracted by a federal agency Frequency: Usually every few years	Auditor: Audit firm (which is acceptable to cognizant federal audit agency or meets USG standards) contracted by recipient Frequency: Every year in which NFP expends more than $500,000 in federal funds ($300,000 nor non-U.S. NFPs)	1. While audits are always burdensome, annual audits may be less so than multi-year audits; annual audits also help the implementing partner get revised indirect cost rates established much more promptly, thereby minimizing the potential for under-recovery of indirect costs; this may tend to provide some advantage to NFPs over FPs 2. Multi-year audits result in cost disallowances (and concomitant refunds) occurring less frequently than with annual audits, thereby providing the implementing partner with longer-term interest-free use of the funds until they are refunded; this may favor FPs over NFPs	1. USAID could audit NFPs more frequently 2. USAID could revert to more detailed financial reporting/ billing for contracts (under which FPs primarily work) and reinvigorate the Voucher Examiner function to increase timely disallowances/ refunds
Cost Approvals	Generally more than assistance	Generally more than assistance	Generally fewer than acquisition	Generally fewer than acquisition	In addition to grants/cooperative agreements (under which NFPs ordinarily work) generally requiring fewer post-award cost-approvals than contracts	The concept and definition of “prior approval” in paragraph 4b of OMB Circular A-122 could be applied to FPs under FAR 31.2; contracts could reduce or

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
					(under which FPs normally work), the cost principles for NFPs (OMB Circular A-122) state that costs that are identified in the proposal and incorporated into the award are deemed to be approved, whereas the cost principles for FPs (FAR 31.2) do not; both of these factors may result in more post-award cost approvals under contracts than under grants/cooperative agreements, and depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also "Management Burden"	eliminate unnecessary and inappropriate post-award approval requirements in accordance with Performance-Based Contracts (PBC) principles and, instead, rely on the audit function
Salary Approvals	At USAID's discretion	At USAID's discretion	Not permitted	Not permitted	Depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also "Management Burden"	Contracts could reduce or eliminate post-award salary approval requirements in accordance with Performance-Based Contracts (PBC) principles and, instead, rely on the audit function
Travel Approval/ Country Clearance	Required for international travel (may be required for domestic travel at USAID's discretion)	Required for international travel (generally cannot be required for domestic travel)	Country clearance not required; international travel approval only required if travel has not been previously "identified" in proposal or	Country clearance not required; international travel approval only required if travel has not been previously "identified" in proposal or	Depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also "Management Burden"	USAID could apply the requirements under assistance instruments to contracts; country clearance, when required, ordinarily coincides with travel approval, as well as the theoretical/philosophical differences between acquisition and assistance and, hence, does not need to be changed;

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
			implementation plans (may be required for domestic travel at USAID's discretion)	implementation plans (may not be required for domestic travel at USAID's discretion)		since most USAID-funded travel would be international, approval of domestic travel could be eliminated unless there was an exceptional reason therefore
Key Personnel Approval	Yes (if required by award)	Yes (if required by award)	Yes	Yes	Often used by USAID under acquisition instruments to request replacement of key personnel (and approve replacement candidate proposed by contractor); can only be used under assistance instruments to approve replacement candidates proposed by recipient.	1. USAID should not request replacement of key personnel; rather, USAID should focus on performance and quality (or lack thereof) and, if lacking, request the implementing partner to correct deficiencies (which may include replacement of key personnel) 2. USAID should also recognize that contractors' and recipients' responsibilities are different from each other
Approval of Annual Implementation Plans (Work-Plans)	Yes (if required by award), and USAID can direct the inclusion of activities (within the scope of the contract) in the annual implementation plans	Yes (if required by award), and USAID can direct the inclusion of activities (within the scope of the contract) in the annual implementation plans	Yes for CAs (if required by award), but USAID cannot direct the inclusion of activities in the annual implementation plans (USAID can only refuse to approve the proposed implementation plans); No for Grants	Yes for CAs (if required by award), but USAID cannot direct the inclusion of activities in the annual implementation plans (USAID can only refuse to approve the proposed implementation plans); No for Grants	1. Often results in non-use of grants for multi-year awards 2. Often results in use of contracts over CAs	1. USAID should recognize relationships with contractors and recipients are different from each other
Approval of Monitoring & Evaluation (M&E) Plans/Performance	Yes (if required by award)	Yes (if required by award)	Yes for CAs (if required by award), but USAID cannot	Yes for CAs (if required by award), but USAID cannot	1. Often results in non-use of grants 2. Often results in use of contracts over CAs	1. USAID could ensure agreement on M&E Plan/PMP prior to award 2. USAID should recognize

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
Monitoring Plans (PMPs)			direct the inclusion of indicators, targets, etc., in the M&E Plan/PMP (USAID can only refuse to approve the proposed M&E Plan/PMP; No for Grants	direct the inclusion of indicators, targets, etc., in the M&E Plan/PMP (USAID can only refuse to approve the proposed M&E Plan/PMP; No for Grants		relationships with contractors and recipients are different from each other
Approval of Consultants/TCNs/ CCNs	Yes (if required by award)	Yes (if required by award)	No	No	Often results in use of contracts over assistance instruments	1. USAID could expand the authorized areas of "substantial involvement" under CAs to permit USAID approval 2. USAID should recognize relationships with contractors and recipients are different from each other
Approval of Equipment Purchases	Yes (if required by award)	Yes (if not previously identified in budget or proposal and accepted by USAID); see also "Cost Approvals" above	Only if required by FAR 31.2	Yes (if not previously identified in budget or proposal and accepted by USAID); see also "Cost Approvals" above	Often results in use of contracts over assistance instruments	1. USAID could expand the authorized areas of "substantial involvement" under CAs to permit USAID approval 2. USAID should recognize relationships with contractors and recipients are different from each other 3. USAID could ensure agreement on equipment purchases prior to award 4. USAID could apply OMB Circular A-122 concept of "prior approval" to contracts
Title To Property	<u>If acquisition instrument is awarded under SOAG/LSGA</u>: - Property in US:	<u>If acquisition instrument is awarded under SOAG/LSGA</u>: - Property in US:	<u>If award is made under a SOAG/LSGA</u>: Host government (or such public or	<u>If award is made under a SOAG/LSGA</u>: Host government (or such public or	Although title may be vested in recipient under assistance instruments, USAID still retains most control over use and disposition. Misperceptions	None necessary; USAID should recognize relationships with contractors and recipients are different from each other

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	USG. - Property Overseas: Host government (or such public or private entity as the host government may designate), except for property for which contract specifies title will remain in USAID. <u>If acquisition instrument is not awarded under SOAG/LSGA</u>: USG	USG. - Property Overseas: Host government (or such public or private entity as the host government may designate), except for property for which contract specifies title will remain in USAID. <u>If acquisition instrument is not awarded under SOAG/LSGA</u>: USG	private entity as host government may designate). <u>If award is not made under SOAG/LSGA</u>: Recipient.	private entity as host government may designate). <u>If award is not made under SOAG/LSGA</u>: Recipient.	regarding title under assistance instruments may result in use of contracts over assistance instruments	
Sub-Awards	Subaward process prescribed; approval required for unidentified subcontracts (except for certain low-dollar subcontracts under certain types of prime contracts), and may be retained for post-award approval of identified subcontracts; approval required for (sub)grants; (sub)grants to U.S. NGOs limited to $25,000	Subaward process prescribed; approval required for unidentified subcontracts (except for certain low-dollar subcontracts under certain types of prime contracts), and may not be retained for post-award approval of identified subcontracts; approval required for (sub)grants; (sub)grants to U.S. NGOs limited to $25,000	Process for awarding (sub)contracts prescribed, but process for awarding subgrants/ subagreements not prescribed; approval required for unidentified (sub)contracts and subgrants/ subagreements, and not required for identified (sub)contracts and subgrants/ subagreements unless retained as an area of	Process for awarding (sub)contracts prescribed, but process for awarding subgrants/ subagreements not prescribed; approval required for unidentified (sub)contracts and subgrants/ subagreements, and not required for identified (sub)contracts and subgrants/ subagreements unless retained as an area of	Contracts limit the amount of subawards to U.S. NGOs and the type of subawards; this may favor the use of grants/cooperative agreements (under which NFPs ordinarily work) rather that contracts (under which FPs normally work), thereby benefiting the NFPs by allowing them to do more than FPs can do under a contract; see also "Management Burden"	USAID could revise its "Grants Under Contracts" policies in ADS-302 to permit higher-dollar awards to U.S. NGOs (which may facilitate more umbrella programs)and the award of (sub)cooperative agreements; USAID could revise its policies to develop procedures for awarding subgrants/ subagreements under prime grants/cooperative agreements

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	(unless waived); cannot award (sub)cooperative agreements	(unless waived); cannot award (sub)cooperative agreements	"substantial involvement under a cooperative agreement; no limit on subgrants/ subagreements to U.S. NGOs; can award sub-cooperative agreements	"substantial involvement under a cooperative agreement; no limit on subgrants/ subagreements to U.S. NGOs; can award sub-cooperative agreements		
Approval of Budget Revisions	Yes (if required by award)	Yes (if required by award)	Only as specified in award (approval may only be required under limited circumstances)	Only as specified in award (approval may only be required under limited circumstances)	Can result in use of contracts over assistance instruments	1. USAID could comply with non-micromanagement concepts embodied in PBC principles 2. USAID should recognize relationships with contractors and recipients are different from each other
Program Income	No coverage	No coverage	Program income may be used to meet any cost-sharing requirements and/or may be used to reduce USAID's contribution to the overall program cost	Program income may be used in addition to the USAID contribution, and/or may be used to meet any cost-sharing requirements and/or may be used to reduce USAID's contribution to the overall program cost	Microfinance programs normally generate income (loan repayments); typically, it is desired that program income be "additive" to USAID funds and used for program purposes; the inability of FPs to do this under assistance instruments may favor NFPs that can; the lack of coverage on program income under contracts may favor use of grants/cooperative agreements with coverage, thereby benefiting NFPs and disadvantaging FPs	Assistance rules could be changed to permit program income to be treated as additive for revolving loan funds, even if the recipient is an FP. Rules for program income under contracts should also be developed.
Source, Origin, and Nationality/Geographic Code/Buy America	U.S. (Geographic Code 000) unless otherwise specified or	U.S. (Geographic Code 00) unless otherwise specified or	<u>If total value of goods and services purchased by</u>	<u>If total value of goods and services purchased by</u>	Contracts (under which FPs normally work) impose some degree of additional burden related to USAID's source/	The logic for the greater flexibility under assistance instruments does not seem germane to the issue of

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	waived (except for certain local purchases)	waived (except for certain local purchases)	<u>recipient is $250,000 or less</u>: Geographic Code 935 (Special Free World) , subject to an order of preference and file documentation/ justification requirements <u>If total value of goods and services purchased by recipient is more than $250,000</u>: U.S. (Geographic Code 00) unless otherwise specified or waived (except for certain local purchases)	<u>recipient is $250,000 or less</u>: Geographic Code 935 (Special Free World) , subject to an order of preference and file documentation/ justification requirements <u>If total value of goods and services purchased by recipient is more than $250,000</u>: U.S. (Geographic Code 00) unless otherwise specified or waived (except for certain local purchases)	origin/nationality requirements than do assistance instruments; depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also "Management Burden"	acquisition vs. assistance; USAID could apply the assistance policies to acquisition
Limitations on Personnel Compensation	<u>U.S. Personnel</u>: ES-6 <u>CCN/TCN</u>: Linked to U.S. Mission's Local Employee Compensation Plan (LECP) and paid in local currency unless otherwise authorized	<u>U.S. Personnel</u>: ES-6 <u>CCN/TCN</u>: Linked to U.S. Mission's Local Employee Compensation Plan (LECP) and paid in local currency unless otherwise authorized	<u>U.S. Personnel</u>: None <u>CCN/TCN</u>: None	<u>U.S. Personnel</u>: None <u>CCN/TCN</u>: None	Depending on the desired level of USAID's post-award involvement, existing rules may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs)	Although the differences reflect the theoretical/philosophical differences between acquisition and assistance, the practical effect on the ground is minimal since, typically, the same type of work is being performed and differences in implementation/ employment arrangements are often unknown and not understood or appreciated; the assistance policies could be applied to acquisition in accordance with Performance-Based Contracting (PBC)

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
						principles and reliance could be placed on the audit function; this would not solve – and may well exacerbate – the problem of "pirating" of the U.S. Mission's staff by implementing partners, but revision of LECPs by U.S. Embassies overseas to reflect the differences in how they use Foreign Service Nationals (FSNs) vs. how USAID uses FSNs could make the U.S. Mission more competitive
Termination for Convenience of USG	Permitted	Permitted	Not permitted (only by mutual agreement), except when continued assistance is not in U.S. national interest or is in violation of applicable law	Not permitted (only by mutual agreement), except when continued assistance is not in U.S. national interest or is in violation of applicable law	In an unstable environment, it may be necessary or desirable for USAID to retain a unilateral right to terminate an award for convenience; this might favor contracts and FPs over assistance instruments and NFPs	It is probably not possible or appropriate to change this; any benefit inuring to FPs because of the differences would undoubtedly be insignificant and outweighed by the increased risk and uncertainty
Technical Directions by USAID	Permitted	Permitted	Not permitted	Not permitted	Depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also "Management Burden"	The differences reflect the theoretical/philosophical differences between acquisition and assistance and should not be changed
Changes to Statement of Work (SOW)/ Program Description (PD)	May be made unilaterally by USAID (within general scope of contract); equitable adjustment to	May be made unilaterally by USAID (within general scope of contract); equitable adjustment to	May be made by mutual agreement	May be made by mutual agreement	Depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); see also	The differences reflect the theoretical/philosophical differences between acquisition and assistance and should not be changed

Legal, Regulatory, or Policy Constraint to a Level Playing Field	Acquisition (Contracts)		Assistance (Grants/Cooperative Agreements)		Result	Action Necessary to Overcome Constraint
	FP	NFP	FP	NFP		
	contract terms and conditions negotiated as a result of changes	contract terms and conditions negotiated as a result of changes			"Management Burden"	
Past Performance	Annual and final "report cards"	Annual and final "report cards"	No "report cards"	No "report cards"	Whereas contracts offer the opportunity for constructive feedback and communication between USAID and the implementing partner, as well as creating an electronic database, grants/cooperative agreements do not; depending on the desired level of USAID's post-award involvement, this may favor the use of contracts (thus benefiting FPs) or it may favor the use of grants/cooperative agreements (thus benefiting NFPs); it also makes USAID more reliant on references provided by NFPs – see "Past Performance as Evaluation Factor," above; also see "Management Burden"	USAID could develop an formal past performance system and electronic database for grants/cooperative agreements
Branding and Marking	Contractor must comply with USAID branding and marking requirements; USAID develops Branding Strategy and Communications and Marking Plans	Contractor must comply with USAID branding and marking requirements; USAID develops Branding Strategy and Communications and Marking Plans	Recipient must comply with USAID branding and marking requirements; applicant/recipie nt proposes Branding Strategy and Marking Plan for USAID review and approval	Recipient must comply with USAID branding and marking requirements; applicant/recipie nt proposes Branding Strategy and Marking Plan for USAID review and approval	Can result in use of contracts over assistance instruments if USAID wants to direct the requirements; otherwise, could result in use of assistance instruments over contracts if USAID would mostly defer to applicant's/recipient's plans	None needed; USAID should recognize relationships with contractors and recipients are different from each other

ANNEX G: COST EFFECTIVENESS STUDY

An Analysis of the Relative Cost Effectiveness of For-Profit and Not-For-Profit Organizations in Implementing Microfinance Umbrella Programs

Scope and Purpose

Although measuring cost effectiveness was only briefly mentioned in the umbrella study scope of work, it was a revealed to be a topic of great concern in research carried out during the actual study. Donors, the community of practitioners, and some in Congress have expressed concern that the use of umbrellas involved a greater reliance, at greater cost, on for-profit consulting firms. Statements from a September 20, 2005, Congressional Hearing on Microenteprise Grant Accountability[57] reflect this concern:

> *"In recent years I have been concerned about the trend of directing increasing amounts of precious microenterprise resources to contractors and for-profit organizations, while the funding for cost efficient, highly effective NGOs and PVOs have dropped. And that is a trend in the wrong direction, in my opinion." Congressman Donald Payne (D –N.J.).*

Such statements reflect a belief among some observers that not-for-profit (NFP) organizations are more cost effective in implementing USAID's microenterprise development programs than for-profit (FP) firms, that NFPs have lower overhead and thus must be more cost effective, or that the cost-per-microfinance-borrower for NFP programs is lower than for large, contractor-led umbrellas. The following analysis, undertaken to test the truth of this hypothesis, explores and applies these and other proxies of cost effectiveness between NFPs and FPs in the implementation of USAID-funded microenterprise programs.

Proxies of Cost Effectiveness

Cost effectiveness implies not just low cost, which can quantified and objectively measured, but also quality of performance, which involves more subjective judgments. Several proxy measures of cost effectiveness were explored; in the end, each was found to have its limitations. Initially two proxies were used to determine whether FPs or NFPs are lower in cost than FPs: (1) indirect costs (overhead) and fees, and (2) the cost per client served. However, these proxies measure only cost, without assessing the quality of services that is an important element of cost effectiveness. Accordingly, an additional proxy was applied to try to balance an objective measure of costs with a subjective assessment of the quality of services: (3) personnel qualifications and compensation.

Indirect Costs and Fees

Cost effectiveness is, in part, a function of an organization's administrative and indirect costs and, in the case of FPs, their fee. This assumes that all other things being equal, the direct costs of implementing a project (i.e., those costs that are directly allocable to a specific project) are more or less the same, regardless of whether the organization implementing the project is NFP or FP. At a unit-price level, this assumption seems intuitive. For example, the cost of economy class air fare to a given country does not vary widely among different kinds of organizations. Per diem rates and overseas allowances for countries are set by the U.S. Department of State and are the same for NFPs and FPs (although NFPs sometimes choose to pay less than government rates). Similarly, the prices of other direct costs (ODCs), such as equipment, supplies, materials, insurances, medical exams/inoculations, passports/visas, and other non-labor costs, also tend to be the same.

---

[57] Per the Congressional transcripts on September 20, 2005, from the House International Relations Subcommittee on Africa, Global Human Rights, and International Operations.

In contrast to direct costs, indirect costs are not directly allocable to a specific activity. They represent the cost of doing business. Examples of typical indirect costs include home office rent and utilities, salaries and benefits for the finance, human resources and information technology departments, etc.[58]

Methodology for comparing costs. To compare the impact of different indirect cost rates for NFPs and FPs, a direct cost budget was constructed for a hypothetical microfinance umbrella programs. In addition, USAID provided masked Negotiated Indirect Cost Rate Agreements (NICRAs) with organizational identification deleted for eight FPs and eight NFPs active in microenterprise development. Each organization's NICRA rates were then applied to the direct cost budget to calculate the indirect cost budget. In addition, average fee rates based on historical cost experience were applied to the FPs.

To ascertain whether this cost comparison affects programs differently, costs were broken down by the following components: (1) program management; (2) macro (legal and regulatory reform); (3) meso (information infrastructure [e.g., credit bureaus, auditors], professional associations, bond and security markets]); and (4) micro (retail financial institutions).

Fees. A strict comparison of costs between FPs and NFPs will always disadvantage FPs due to their fees. Fee for FPs is often budgeted as a percentage of direct costs.[59] Fee is an increment that is paid in addition to actual allowable costs, and represents potential profit. However, because it must also cover unallowable costs, fee does not necessarily represent net profit. Like indirect costs, it is necessary to calculate and compare fee dollars rather than fee rates.

While NFPs do not receive a fee (except on occasion under a contract), they are normally paid in advance, while FPs ordinarily are not. Hence, FPs must finance their performance and wait to be reimbursed. The lag between incurrence of a cost and reimbursement may be 60 to 90 days. If a FP has to borrow funds to finance performance, the interest on the borrowings is an unallowable cost and thus must be absorbed into the FP's fee, thereby reducing net profit.[60] However, when a FP contractor awards subgrants, it is eligible for advance payments on the subgrant amount.

Direct costs. In this hypothetical budget, direct costs are held constant for each organization and appear under the cost category to which they are allocated. Expenditures include $3 million for subgrants to MFIs under the micro category. For FPs, a fee rate of 3 percent of that amount was used (i.e., $90,000).

[58] To calculate an indirect cost rate, an organization's indirect costs are pooled together. To equitably allocate these indirect costs, the pool must be related to a base of allocation of specific direct costs. Bases of allocation vary from organization to organization and between the FP and NFP communities. Common examples of base of allocation costs are direct salaries, direct salaries and fringe benefits, total direct costs, or modified total direct costs (often excluding equipment and/or subawards or portions of subawards), and subawards/pass-through costs. Example: An organization's indirect cost pool is $100,000. Its base of allocation (for all projects/awards) is total direct costs (TDC), which is $1,000,000. A rate is calculated as follows: Indirect Cost Pool ($100,000) ÷ Base of Allocation (TDC) ($1,000,000) = .10 = 10.00% of TDC. Changes to and differences between the pool and base of allocation will have an impact on the rate. Since the base of allocation varies between organizations, it is not valid to simply compare indirect cost rates, as an equally important factor is the bases of allocation to which the rates are applied. Hence, the only valid comparison is to compare indirect cost dollars.

[59] While fee is often budgeted by potential contractors as a percentage of cost, the reasonableness of the fee is determined and negotiated by USAID using a structured approach that considers the contractor's effort, risk, and other special (often socio-economic) factors, rather than only costs. Fee is always expressed in the award as a dollar amount, not a percentage.

[60] Those FPs that do not need to borrow may still experience lost opportunity costs on funds (i.e., the cost associated with having bypassed opportunities to have invested the funds in productive activities). Either way, FPs need to be concerned about return on investment and the fact that typical fee rates under USAID contracts could be lower than could be earned through other activities and investments, many of which may involve less risk and expenditure of effort than work under USAID contracts.

Table 1. Indirect Cost Rates

Direct Costs			Project Management	Macro-Level Activities	Meso-Level Activities	Micro-Level Activities	Total
			1,169,900	578,844	571,220	3,627,120	5,938,084
FP	Indirect Costs and Fee	Low	448,101	181,715	152,973	222,286	1,021,164
		High	740,614	379,259	293,663	800,049	1,894,446
		Avg	*524,640*	*224,600*	*188,964*	*460,383*	*1,398,587*
NFP	Indirect Costs	Low	90,086	44,918	44,327	94,068	431,713
		High	426,863	212,841	210,038	1,260,787	2,064,078
		Avg	*287,471*	*141,873*	*136,413*	*332,006*	*897,763*
All	Indirect Costs and Fee	Low	(NFP) 90,086	(NFP) 44,918	(NFP) 44,327	(NFP) 94,068	(NFP) 431,713
		High	(FP) 740,614	(FP) 379,259	(FP) 293,663	(NFP) 1,260,787	(NFP) 2,064,078
		Avg	*406,056*	*183,237*	*162,688*	*396,195*	*1,148,175*

Results of the exercise. As may be seen from the above table, NFPs are generally lower in indirect costs/fee than FPs, with important exceptions. On average, NFPs spend less on project management, but FPs fare progressively better in macro-, meso-, and micro-level activities. As may be seen, six of the lowest-cost organizations are NFPs, whereas five of the highest-cost are FPs. Yet the highest-cost organization in implementing micro-level activities is a NFP. Interestingly, there is greater variation in total indirect costs/fee among NFPs (ranging from a low of $431,713 to a high of $2,064,078) than among FPs (ranging from $1,021,164 up to $1,894,446). Thus while some low-cost NFPs are significantly less expensive than their FP counterparts, high-cost NFPs are more expensive. There are no structural reasons for these differences, making it impossible to draw any meaningful conclusions from these trends. The exercise simply highlights the wide fluctuation in indirect costs and fee between organizations, whether FP or NFP, even in a small sample of 16 projects.

It is interesting to note that outside of the extremes, there are only small variances in costs between programs. Thus, it is not particularly informative to analyze rank order, because in many cases there are relatively minimal dollar differences among the organizations (FP and NFP) that are in the "middle of the pack." These relatively minimal differences could easily be affected by qualitative factors that must be analyzed along with quantitative data to determine cost effectiveness. [61]

According to this analysis, there does not appear to be any substantial cost difference between umbrella programs and single-purpose projects. If anything, single-purpose projects may be somewhat more costly because project management costs cannot be divided between macro, meso, and macro components. Therefore umbrella programs offer some economies of scale, whereas single-purpose projects would, necessarily, incur redundant costs that would be unnecessary under umbrella programs.

Limitations of the exercise. It is important to emphasize that this analysis is essentially a snapshot of a fictitious microenterprise project at one point in time and is based on a number of assumptions that are in fact hypothetical. Other configurations of staffing and technical inputs could yield dramatically different results. So, too, could changes in the base of allocation (e.g., receiving a large new award or having a large award terminated early). In addition, NICRA and other rates can change from year to year.

It must also be noted that that each organization could have different staffing configurations and provide different technical inputs. Previously USAID used mainly level-of-effort contracts under which the staffing levels and other technical inputs were standardized and specified by the Agency. Starting in the mid-1990s, however, much greater emphasis has been given to managing for results through performance-based

---

[61] Interestingly, the case studies suggest that FPs were often – although not always – considered by USAID staff to be better and more responsive at program management. This may be either a result or a cause of higher program management costs.

contracts and results-oriented assistance instruments. In these instruments, USAID specifies the results to be achieved, and proposals describe how it should best be done, with the "how" resulting in different proposed technical approaches and, hence, different mixes of technical inputs. This, in turn, affects overall cost even if the unit costs are in fact more or less the same.

In point of fact, though, many unit costs are not comparable. As may be seen in the description of the third proxy found below, the largest direct-cost variable (in terms of unit costs) under USAID awards is usually personnel compensation – i.e., salaries and consultant fees. Although salaries and consultant fees vary widely depending on experience, education, and salary history, they represent an important cost base to which other indirect costs and fee are applied.

Another factor that significantly affects direct costs is the organization's compensation policies and practices. To avoid disparities between different categories of personnel and concomitant morale problems, USAID generally prefers that contractor personnel be offered the full range of benefits and allowances to which they are entitled under U.S. Government regulations. Therefore, in most cases, FP contracts provide for the same overseas and travel benefits and allowances that are received by direct-hire employees of the U.S. Government. In contrast, under grants/cooperative agreements, USAID generally defers to the implementing organization's policies and practices with respect to overseas and travel allowances and benefits. U.S. Government allowances are used only as a "test of reasonableness" of NFP policies and practices, which are often much less generous than government regulations allows. While government policy regarding direct costs for benefits and allowance are the same for NFPs and FPs, in reality it is impossible to generalize about how they are applied by different organizations.

In addition, all organizations do not account for indirect costs in the same manner. Within Generally Accepted Accounting Principles (GAAP), one organization may treat a certain item as a direct cost, while another organization may account for the same item as an indirect cost, depending on the sophistication of its accounting system. Indirect costing practices vary widely in the NFP community, but are more standard among FPs. Fringe benefits are also often charged in a variety of different ways.

In analyzing indirect costs and fee, it is important to remember that these costs are only a small fraction of a program's total cost. USAID never makes awards purely on the basis of indirect costs and fee but rather on the basis of overall costs. On occasional, differences in indirect costs and fee between FPs and NFPs are significant enough to outweigh variations in direct costs related to differences in technical approach, quality, labor costs, accounting practices, etc., that are masked by this analysis.

Finally, it is important to stress that, at best, this analysis merely looks at the cost of doing business. It does not provide an indication of factors like effectiveness, timeliness, or quality of performance. Higher or lower total overall cost may bear no relationship to these subjective and qualitative factors, which must always be considered to determine cost effectiveness. The same is obviously true regarding indirect costs (and fee, if any), a subset of total overall costs. Hence, this analysis does not allow for any definitive conclusion on cost effectiveness to be reached.

Cost Per Microfinance Client

One simple measure of cost effectiveness that has received considerable discussion is cost-per-client served. While this indicator has the advantage of ease of calculation, there are a plethora of issues that influence the outcome of the related analysis, which must be undertaken to properly understand and compare performance. Cost-per-client is driven by a number of variables, such as type of client, stage of market development, program design, products and services offered, methodology, and program location. In addition, the multisectoral approach used by umbrella programs does not lend itself well to cost-per-client analysis, as an umbrella may be designed to focus on factors other than retail-level operations. For example, it is meaningless to compare the cost-per-client of a macro-level intervention to develop a supportive legal and regulatory environment to the cost-per-client of a micro-level intervention to expand the institutional outreach of individual MFIs.

For cost-per-client to be a meaningful proxy for cost effectiveness, a number of exogenous factors must be considered, including differences in regional, national, and market context; differences in the size, age, and methodology of partner institutions; and differences in institutional needs and type of assistance offered. The cost-per-client of a large, mature, formal microfinance bank in Latin America is inherently different from that of a small, informal credit union in Africa. Even among projects implemented at the same time in the same country, cost-per-client will differ based on the type of clients and institutions each project serves.

Table 2 compares the cost to reach new clients for the five umbrella programs profiled as case studies in this report. The projects:

- Central Asian Microfinance Alliance (CAMFA) project in the Central Asian Republics (CAR), implemented by a NFP under a cooperative agreement
- Support for Private Enterprise Expansion and Development (SPEED) program in Uganda, implemented by a FP under a contract
- The Microenterprise Access to Banking Services (MABS) project, implemented under contract with a FP, targeting rural banks in the Philippines
- The Credit Union Empowerment and Strengthening (CUES) project, implemented under a cooperative agreement with an NFP, with the targeted MFIs being credit unions in the Philippines
- The FOMIR umbrella in El Salvador, managed by a FP under a contract

Table 2. Cost Per Each New MFI Client

Indicators	CAMFA CAR (NFP)	CUES Philippines (NFP)	MABS Philippines (FP)	SPEED Uganda (FP)	FOMIR El Salvador (FP)
Total increase in number of clients	41,917	476,013	233,915	42,753	31,946
Amount of USAID investment toward MF activities	$12,000,000	$7,250,000	$17,400,000	$2,716,694	$9,100,000
Cost to USAID per MFI client	$286	$15	$74	$64	$285

As Table 2 demonstrates, variability in cost-per-client is quite high, even among NFP-led programs. In fact, among the programs listed, the highest cost-per-new-client ratio for an umbrella program ($286/client) belonged to a NFP-led program (CAMFA). And even within the same program there were major variations in cost-per-client among CAMFA partners. For example, one major CAMFA grantee, FINCA International, received more than $2 million in financial support for its microfinance programs in Kyrgyzstan and Tajikistan. The cost-per-client was $14 in Kyrgyzstan, while the cost-per-client in Tajikistan was 80 times higher at $1,133. One major reason for this discrepancy is that FINCA/Tajikistan was a start-up program that required significant start-up investment, while FINCA/Kyrgyzstan was already implementing a well-established program. When two programs implemented by the same organization at the same time in the same region demonstrate such major differences in cost-per-client, it is difficult to draw any general conclusion about the usefulness of this indicator.

Another example of similar programs with different cost structures are the CUES and MABS projects in the Philippines. Both began operations around the same time on the same island, Mindanao. CUES, implemented by a NFP, worked with small cooperatives to promote credit union best practices, while MABS, implemented by an FP, worked with rural banks to improve their management systems. The cost-per-new client for CUES was $15; MABS spent $74 to reach each new client. Based on these figures alone, it could be assumed that CUES was 15 times as efficient as MABS. However, taking these numbers out of context ignores the fact that many of the reasons for the cost differences are rooted in program design and therefore are the responsibility of USAID, not its implementing partners. By design, the two partners offered different types of assistance to different clients, using different methodologies. CUES deserves credit for the large absolute number of clients it was able to reach relatively efficiently. Providing low-cost assistance, CUES partner credit unions were able to quickly grow their membership bases to reach more rural clients. While it is difficult to directly compare the absolute efficiency of the two programs, MABS worked with a small number of rural banks with relatively low capacity to reach large numbers of new clients, offering relatively expensive forms of assistance like computer hardware and software.

Personnel Qualifications and Compensation

It is commonly perceived that NFPs pay their personnel lower salaries – or, alternatively, that FPs offer high-priced personnel. Some have asserted that this can be used as a measure of cost effectiveness. However, it is an axiom within USAID that personnel with stronger educational backgrounds and more work experience command higher levels of compensation than junior staff. Since personnel qualifications are a significant factor in USAID's evaluation of proposals, it is safe to conclude that education and experience are rewarded in program selection. In fact, personnel qualifications are normally weighed more heavily than cost. Assessing whether specific credentials are worth a specific level of compensation is a highly subjective judgment. Unlike the previous two proxies which, at best, only measure cost without reference to qualitative factors, comparing personnel qualifications with compensation offers a cautious insight into the more subjective issue of effectiveness.

To ground-truth this issue, a survey was undertaken of personnel qualifications and compensation for FPs and NFPs.[62] One benefit of this analysis is that it compares actual rather than standardized personnel compensation costs, as was the case with the first proxy above. Table 3 presents low, high, and average compensation levels for 22 Chiefs of Party (COPs) and 22 long-term technical assistance (LTTA) personnel provided by FPs and NFPs under microenterprise umbrella programs, along with qualification level.

The results of the survey show that, in general, greater levels of relevant experience go hand-in-hand with higher compensation. Apart from this logical trend, there are few meaningful generalizations about qualification vs. compensation with regard to NFPs vs. FPs. NFP compensation levels tend to be lower on average, but are not always the lowest. For example, the lowest paid NFP COP earned $17,000 more than the lowest paid FP COP. NFPs generally provided COPs with slightly more professional and USAID experience (1 to 2 years more) and more graduate degrees, but with less MED and overseas experience (3 to 4.5 years less). For LTTA results were similar. FPs again paid greater salaries on average, but the lowest paid FP LTTA earned $17,000 less than the lowest paid NFP STTA. On average NFPs provided personnel with more slightly more professional (1 year more) and significantly more MED experience (6 years more), but less USAID experience (6 years less). NFPs provided personnel with essentially the same level of overseas experience, but in this survey none of NFP personnel had graduate degrees.

[62] Excluded from the analysis was one attorney, because the higher salary would skew the results when compared to other staff. Also omitted from the study were Cooperating Country National (CCN) and Third Country National (TCN) staff and short term technical assistance staff. As NFPs did not provide information on these staff, it would be meaningless to include their compensation in this study.

Table 3. Personnel Compensation and Qualifications

			Annual Salary	Professional Experience (Years)	USAID Experience (Years)	MED Experience (Years)	Overseas Experience (Years)	MA/MSc/ MBA
COP	FP	Low	$65,520	10	0	3	3	
		High	$156,395	41	20	25	30	
		Avg	$125,208	23.31	8.4	11.19	12.75	Y= 81.25%
	NFP	Low	$82,000	17	4	2	4	
		High	$100,000	38	15	15	15	
		Avg	$93,500	24.33	10.67	8.00	8.33	Y= 100.00%
	All	Low	(FP) $65,520	(FP) 10	(FP) 0	(NFP) 2	(FP) 3	
		High	(FP) $156,395	(FP) 41	(FP) 20	(FP) 25	(FP) 30	
		Avg	$120,202	23.47	8.77	10.68	12.05	Y= 84.21%
LTTA	FP	Low	$51,385	6	2	3	0.5	
		High	$145,576	29	13	16	23	
		Avg	$91,925	14.73	7.13	8.20	6.31	Y= 86.67%
	NFP	Low	$68,000	15	0	9	1	
		High	$79,300	30	3	20	12	
		Avg	$73,650	15.65	1.5	14.50	6.50	Y= 0.00%
	All	Low	(FP) $51,385	(FP) 6	(NFP) 0	(FP) 3	(FP) 0.5	
		High	(FP) $145,576	(FP) 29	(FP) 13	(NFP) 20	(FP) 23	
		Avg	$89,775	15.65	6.47	8.94	6.33	Y= 78.59%

The mixed results of this analysis defy generalized conclusions. In part, this is due to data limitations: the survey could only identify three COPs for umbrella programs and only two personnel with NFPs on LTTA assignments. This is consistent with the trends in umbrella programs that limit the direct comparability of NFPs and FPs as broad analytical categories, as there are few NFPs leading umbrellas. In addition, comparability is limited by the fact that most NFPs work as subpartners under umbrella programs and compensation data at the subpartner level are not often readily available to USAID. A comparison of qualifications and compensation under single-purpose projects would not yield viable conclusions, as single-purpose programs have a more focused design than umbrella and therefore demand a different skills set.

The most that can be said as a general conclusion is that FPs on average – but not always – pay higher salaries and that NFPs and FPs in general provide personnel with similar experience and qualifications, but that because of the different nature of contracts and cooperative agreements, USAID has more control over how much COPs and LTTA at a given qualification level are compensated under FP mechanisms.

Conclusions

In the end, USAID-funded microenterprise development programs have been implemented successfully as both umbrella programs and as single-purpose projects by both FPs and NFPs. Detailed analysis of the cost structures of NFPs and FPs offer no evidence that these programs have been implemented inefficiently. Similarly, there is no evidence that either FPs or NFPs are more cost effective in achieving project results. This study found that it is extremely difficult to directly compare cost effectiveness between organizations and projects, and impossible to draw broad general conclusions. Ultimately, cost effectiveness must be analyzed on a case-by-case basis, with due consideration given to the design and context of the program being evaluated.

The three main proxy measures used by the project lead to the following conclusion:

- ***Indirect costs and fees***

In general, NFPs had lower indirect costs (and no fees), but the variance between NFPs and FPs was small. In addition, there were other important variables in cost structure. These included what level(s) the program operates on – micro, meso, or macro – and whether it is single purpose or an umbrella. In the final analysis, although important, indirect costs represent only a small fraction of direct costs, which typically vary slightly between NFPs and FPs, limiting their overall impact on cost effectiveness.

- ***Cost-per-client***

This simple proxy measure has serious weaknesses. One key limitation in its application to umbrella programs is that it is entirely incapable of measuring macro- and meso- level interventions. In measuring micro-level interventions, this proxy is also limited to comparing programs in similar regional, national, and institutional contexts. Even if the operating context of two programs is exactly the same, design variables such as the type of clients served or type of assistance provided have a huge impact on costs.

- ***Personnel qualifications and compensation***

Few generalized conclusions can be drawn regarding the qualifications and compensation of personnel from NFPs and FPs. As an axiom, USAID rewards greater levels of experience and education with greater levels of compensation. Apart from these generalizations, NFPs and FPs tend to use personnel with similar levels of qualifications. On average, NFPs tend to offer less compensation to their personnel, but this is not universal and does not imply that they employ less-qualified staff.

ANNEX H: BIBLIOGRAPHY

Main Report

Ananth, Bindu, and Annie George Soju. "Scaling up Micro Financial Services: An Overview of Challenges and Opportunities." ICICI Social Initiatives Group, August 2003.

Carter, Michael, Eliza Waters, Brian Branch, Lucy Ito, and Catherine Ford. "Rethinking Rural Finance: A Synthesis of the 'Paving the Way Forward for Rural Finance Conference'." BASIS Collaborative Research Support Program, University of Wisconsin-Madison, with World Council of Credit Unions, March 2004.

Chao-Beroff, Renee. "Rural Savings Mobilization in West Africa: Guard Against Shocks or Build an Asset Base?" *MicroBanking Bulletin*, July 2003.

Consultative Group to Assist the Poorest (CGAP). "Aid Effectiveness." October 2004.

"APEX Institutions in Microfinance." Donor brief no. 5, July 2002.

"Building Inclusive Financial Systems – Donor Guidelines on Good Practice in Microfinance." December 2004.

"Credit Components." Donor brief no. 10, February 2003.

"Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance." *Microfinance Consensus Guidelines*, August 2003.

"Donor Information Resource Center." DIRECT, October 2004.

"Financial Services for the Rural Poor." Donor brief no. 15, October 2003.

"Format for Appraisal of Microfinance Institutions." Technical tool series no. 4, July 1999.

"Helping to Build a Microfinance Industry." Undated.

"IDB-CGAP Rating Fund." October 2004.

"Information Systems Fund." October 2004.

"Key Principles of Microfinance." Undated.

"Maximizing Aid Effectiveness in Microfinance." Donor brief no. 22, February 2005.

"Maximizing the Outreach of Microenterprise Finance – the Emerging Lessons of Successful Programs." Focus note no. 2, October 1995.

"Microfinance and the Millennium Development Goals." Donor brief no. 9, December 2002.

"Microfinance Donor Projects: 12 Questions About Sound Practice." Donor brief no. 1, April 2002.

www.microfinancegateway.org. October 2004.

"Microfinance Information eXchange: The MIX." October 2004.

"Microinsurance: A Risk Management Strategy." Donor brief no. 16, December 2003.

"Pro-Poor Innovation Challenge (PPIC)." October 2004.

"Regulation and Supervision of Microfinance." Donor brief no. 12, May 2003.

"Retail Advisory Service (RAS)." October 2004.

"What is a Network? The Diversity of Networks in Microfinance Today." Focus note no. 26, July 2004.

"Why Donors Need to Understand Product Development." Donor brief no. 8, November 2002.

de Sousa Shields, Marc, Cheryl Frankiewicz, et. al. "Financing Microfinance Institutions: The Context for Transitions to Private Capital." AMAP micro report no. 9, December 2004.

de Sousa Shields, Marc. "Financing Microfinance: 'Transitions to Private Capital' Workshop Proceedings." AMAP micro report no. 2, August 2004.

DFID. "Making Financial Markets Work for the Poor – DFID's Experiences in Eastern and Southern Africa." Paris: Annual CGAP Meeting, November 2003.

Deloitte Touche Tohmatsu. "Developing an Intervention Strategy in SME Finance: A Five-Step Framework for Assessment." Undated.

Dressen, Robert, Jay Dyer, and Zan Northrip. "Turning Around State-Owned Banks in Underserved Markets." *Small Enterprise Development*, vol. 13, no. 4, December 2002.

Ernst, Ulrich, Marina Krivoshlykova, Donald Snodgrass, and James Packward Winkler. "Enterprise Growth Initiatives, Part I – Enterprise Growth Initiatives: Strategic Directions and Options – Handbook." Bethesda, Maryland: Development Alternatives, Inc., under USAID contract no. GEG-1-01-02-00027, July 2004.

Ford, Jess T. "USAID Needs to Improve Its Workforce Planning and Operating Expense Accounting." GAO-03-1171T, September 2003.

Forster, Sarah, Seth Greene, and Justyna Pytkowska. "The State of Microfinance in Central and Eastern Europe and the New Independent States." CGAP Microfinance Center, 2003.

General Accounting Office. "Microenterprise Development – USAID's Program Has Met Some Goals; Annual Reporting Has Limitations." GAO-04-171, November 2003.

"Foreign Assistance – Strategic Workforce Planning Can Help USAID Address Current and Future Challenges." GAO -03-946, August 2003.

Gutin, John, and Robin Young. "Khan Bank: The Agricultural Bank of Mongolia." AMAP micro report, January 2005.

Haddad, Lawrence, and Tim Frankenberger. "Integrating Relief and Development to Accelerate Reductions in Food Insecurity in Shock-Prone Areas." USAID Office of Food for Peace Occasional Papers, June 2003.

Helms, Bridget. "Measuring Inclusion: A Framework for Analyzing Pro-Poor Financial Systems." Undated.

Hirschland, Madeline. "Serving Small Depositors: Overcoming the Obstacles, Recognizing the Tradeoffs." *MicroBanking Bulletin*, July 2003.

Ivatury, Gautam. and Julie Abrams. "The Market for Microfinance Foreign Investment: Opportunities and Challenges." Draft, June 2005.

Johnson, Charles W. "Enterprise Growth Initiatives, Part II – An Organizational Analysis of Enterprise Development in USAID." Bethesda, Maryland: Development Alternatives, Inc., under USAID contract no. GEG-1-01-02-00027, September 2003.

"Study of Microenterprise Development Programs – Azerbaijan." Prepared by the Emerging Markets Group, Ltd., for the USAID Office of Microenterprise Development, March 2005.

Johnson, Charles W., and Jeremy M. Black. "Study of Microenterprise Development Programs – The Central Asia Republics." Prepared by the Emerging Markets Group, Ltd., for the USAID Office of Microenterprise Development, March 2005.

"Study of Microenterprise Development Programs – The Philippines." Prepared by the Emerging Markets Group, Ltd., for the USAID Office of Microenterprise Development, May 2005.

"Study of Microenterprise Development Programs – Uganda." Prepared by the Emerging Markets Group, Ltd., for the USAID Office of Microenterprise Development, May 2005.

Littlefield, Elizabeth, and Richard Rosenberg. "Breaking Down the Walls Between Microfinance and the Formal Financial System." June 2004.

Miller, Terrence. "IQCs and LWAs." May 2005.

Private Sector Donors Group, Uganda. "Donor Principles for Support to Uganda's Microfinance Industry." January 2002.

Richardson, Dave C. "Going to the Barricades for Microsavings Mobilization: A View of the Real Costs from the Trenches." *MicroBanking Bulletin*, July 2003.

Robinson, Marguerite S. "The Future of the Commercial Microfinance Industry in Asia." Manila, Philippines: Asian Development Bank Regional Conference on Microfinance, March 2005.

Rhyne, Elisabeth. "Talking about Performance Ratios – Towards a Package of Savings Indicators." *MicroBanking Bulletin*, July 2003.

Snodgrass, Donald R., and James Packard Winkler. "Enterprise Growth Initiatives, Part I – Enterprise Growth Initiatives: Strategic Directions and Options. Bethesda, Maryland: Development Alternatives, Inc., under USAID contract no. GEG-1-01-02-00027, February 2004.

Tanburn, J., G. Trah, and K. Hallberg. "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention." Prepared by the Committee of Donor Agencies for Small Enterprise Development, February 2001.

USAID. "Strategic Management – Interim Guidance." Includes Annex I – White Paper Operational Goals and Strategic Planning; Annex II – Program Areas and USAID's Menu of Program Components; and Annex III – Program Areas and USAID's Menu of Program Components: Definitions. Draft, October 2004.

USAID Office of Food for Peace. "Concept Paper for 2004-2008 Strategic Plan." Final draft, September 2003.

USAID. "Human Capital Strategic Plan, 2004-2008 – Building a New Generation." PD-ACA-455, August 2004.

USAID Bureau for Management, Office of Procurement. Request for Proposals M/OP-01-1363, Accelerated Microenterprise Advancement Project (AMAP), November 2001.

USAID Bureau for Policy and Program Coordination. "U.S. Foreign Aid – Meeting the Challenges of the Twenty-First Century." White paper, January 2004.

USAID Bureau for Policy and Program Coordination. "USAID Overseas Workforce – Putting the Right People in the Right Place." September 2003.

USAID Business Transformation Executive Committee. "Review of USAID Implementation Mechanisms." Draft for review, May 2005.

USAID, Bureau for Management, Office of Human Resources. "USAID Worldwide Staffing Pattern Report." Quarterly reports from June 30, 1996 through March 30, 2005.

Women's World Banking. "Strategies for Financial Integration: Access to Commercial Debt, Financial Products and Services Occasional Paper." Vol. 1, no. 1, July 2004.

Azerbaijan

Asian Development Bank. "Country Strategy and Program Update, 2004-2006." September 2003.

Barnes, Carolyn, and Gurbanali Aleperov. "Evaluation of Micro and SME Credit Activities in Azerbaijan." Prepared by Management Systems International (MSI) for USAID/Azerbaijan, August 2003.

Borish, Michael, and Company, Inc. "An Assessment and Rating of the Azerbaijan Banking System (Volume 1 and Annexes) and Recommendations for USAID Financial Sector Assistance to Azerbaijan: 2004-2009. "Prepared for USAID/Azerbaijan, March 2004.

"Recommendations for USAID Financial Sector Assistance to Azerbaijan: 2004-2009 (Volume II)." Prepared for USAID/Azerbaijan, March 2004.

Booz Allen Hamilton. "Commercial Legal and Institutional Reform Assessment for Europe and Eurasia: Diagnostic Assessment Report for the Republic of Azerbaijan." Prepared for USAID/Azerbaijan, draft, August 2002.

Denoeux, Guilain, Ketevan Bakradze, Mike Keshishian, and Jull Tirnauer. "Azerbaijan Democracy and Governance Assessment." Washington D.C.: Prepared for USAID/Azerbaijan, July 2002.

Dumas, Claudia, Beth Jones, Robert LaMont, and Ketti Kvartskhava. "Legal Assessment: Azerbaijan." Prepared for USAID/Azerbaijan, June 2000.

European Bank for Reconstruction and Development. "Strategy for Azerbaijan with Annexes." Approved by the Board of Directors, December 2002.

Foreign Investment Advisory Service. "Azerbaijan: Joining the Race for Non-Oil Investment: A Diagnostic Review of the Environment." Prepared for FDI, May 2002.

International Monetary Fund. "Financial Sector Assessment Program." Aide memoire, December 2003.

"Azerbaijan Republic: Joint Staff Assessment of the Poverty Reduction Strategy Paper." IMF country report no. 03/129, May 2003.

"Azerbaijan Republic – Selected Issues and Statistical Appendix." IMF country report no. 03/139, May 2003.

"Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility." Prepared by Julian Berengaut and Juha Kahkonen. Washington, D.C.: December 2003.

Johnson, Charles W., with Akbar Noman. "Strengthening the Management of Public Resources in Azerbaijan." Prepared by BearingPoint for USAID/Azerbaijan, June 2004.

National Bank of Azerbaijan. "Draft Regulation on the Registration and Licensing of Microfinance Institutions." Baku, Azerbaijan: September 2003.

Surla, Leo T., Christopher Bladen, and David A. Smith. "Evaluation of Strategic Objective 3.1: USAID Humanitarian Assistance in Conflict-Affected Areas in Azerbaijan." Prepared by MSI/MetaMetrics, Inc., for USAID/Azerbaijan, December 2002.

USAID/Azerbaijan. "Annual Report FY 2004" (including "Azerbaijan: the Development Challenge"), April 2004.

"Azerbaijan Legal and Regulatory Advisory Project – A Concept Paper." July 2002.

"Concept Paper – Azerbaijan Financial Sector Development Program 2005-2009." Draft, January 2005.

"Concept Paper – Azerbaijan SME Finance Activity 2005-2007." Draft, February 2005.

"Azerbaijan SME Sector Support Performance Work Statement." April 2005.

Selected parts of the FY 2005 Congressional Budget Justification (including activity data sheets for Strategic Objectives 1.3, 2.1. and 3.1. Undated.

"Private Sector Assessment: Azerbaijan Update." March 2004.

World Bank. "Azerbaijan Competitiveness: An Integrated Non-Oil Trade and Investment Strategy (INOTIS)." Includes Appendix: Ongoing and Planned Trade Capacity Building-Related Analyses and Initiatives, Vol. 1: Summary report no. 25818-AZ, vol. 2: Background papers, November 2003.

"Azerbaijan Public Expenditure Review." Report no. 25233-AZ, April 2003.

"Azerbaijan Republic Poverty Assessment." Two volumes, report no. 24890-AZ, June 2003.

"Republic of Azerbaijan, Country Procurement Assessment Report." Report no. 26778-AZ, June 2003.

Central Asian Republics

ACDI/VOCA. "ACDI/VOCA Comments Regarding the Bank World Evaluation of the CAMFA Project." Undated.

"CAMFA Action Plan for Association of Micro-Finance Organizations in Tajikistan, 2004-2005."

"CAMFA Action Plan for Association of Scientific and Technical Intelligentsia/Tajikistan, 2004-2005."

"CAMFA Action Plans for Development Fund/Tajikistan, 2003-2004 and 2004-2005."

"CAMFA Action Plans for National Association of Business Women in Tajikistan, 2003-2004 and 2004-2005."

"CAMFA Action Plans for Sudhad Agro Serv/Tajikistan, 2003-2004 and 2004-2005."

"CAMFA Annual Report 2003-2004." October 2004.

"CAMFA Building an Association Strategy." Undated.

"CAMFA Operations Manual – An Approach to MFI Partnership." Undated.

"CAMFA Quarterly Report, April – June 2004."

"CAMFA Work Plan for FY 2003."

"CAMFA Work Plan for FY 2004."

"CAMFA Work Plan for FY 2005." Draft.

"Ferghana Valley Regional Micro-lending Program, Bi-weekly Update for February 19 to March 4, 2005."

"Ferghana Valley Regional Micro-lending Program." Undated presentation.

Asian Credit Fund. "2003 Annual Report."

Association of Micro-Finance Organizations in Tajikistan. "Operational Plan and Budget for 2005-2006."

Bankworld Incorporated. "Evaluation of the Central Asia Microfinance Alliance (CAMFA) Program." November 2004.

Consultative Group to Assist the Poorest (CGAP). "Building Inclusive Financial Systems – Donor Guidelines on Good Practice in Microfinance." December 2004.

FINCA/Tajikistan. "Financial Indicators and Projections: 2004-2006."

"USAID-CAMFA Report." February 2005.

FINCA/Uzbekistan. "Micro Finance Program Client Profiles." June 2004.

Forster, Sarah, Seth Greene, and Justyna Pytkowska. "The State of Microfinance in Central and Eastern Europe and the Newly Independent States." CGAP Microfinance Center, 2003.

Frontiers, LLC. "Micro Lending Compan, Business Plan." February 2004.

International Finance Corporation. "Microfinance in Uzbekistan: Sector Survey, Legal Diagnostic and Recommendations for Legislative Reform." Prepared by IFC's Microfinance Legislation Development Project and co-financed by USAID, October 2003.

International Monetary Fund. "Kyrgyz Republic – Ex Post Assessment of Longer-Term Program Engagement." Report no. 05/32, February 2005.

"Republic of Kazakhstan – Financial Sector Assessment Program Update – Technical Note – Bank Profitability and Competition." Report no. 04/336, October 2004.

Kazakhstan Loan Fund. "2003 Annual Report."

The Pragma Corporation. "Digest of SME Statistics – Republic of Kazakhstan." February 2005.

"Digest of SME Statistics – Kyrgyz Republic." March 2004.

"Digest of SME Statistics – Uzbekistan." 2005.

"Digest of SME Statistics – Tajikistan." Undated.

"Monthly Reports to USAID/CAR." September 2002 through October 2004, inclusive.

Stallard, Janice. "Kazakhstan's Microfinance Law: Opportunities and Future Challenges." Microfinance Regulation and Supervision Resource Center (www.cgap.org/regulation), June 2005.

Suhir, Elena. "Good Intentions and Bad Consequences: How Overregulation Impedes Uzbekistan's Growth." Center for International Private Enterprise, January 2004.

USAID Regional Mission for Central Asian Republics. "Cooperative Agreement between USAID and the EBRD, Kazakhstan Small Business Development Program, Kyrgyz Micro and Small Enterprise Finance Facility, and Tajikistan Small Business Programme."July 2002 – July 2005.

"Cooperative Agreement between USAID and the International Finance Corporation, Project to Improve the Enabling Environment for Microfinance in Tajikistan, Kyrgyz Republic and Uzbekistan, September 2002 – August 2004.

"Kazakhstan Portfolio Review." Undated.

"Kyrgzstan Portfolio Review." Undated.

"Request for Proposals, Economic Policy Project." Section C., EFI76-04-011. Undated.

"Tajikistan Portfolio Review." Undated.

"Turkmenistan Portfolio Review." Undated.

"USAID's Assistance Strategy for Central Asia 2001-2005." July 2000.

"Uzbekistan Portfolio Review." Undated.

"Statement of Work – Evaluation of the Central Asia Microfinance Alliance (CAMFA) Program." Undated.

El Salvador

Bourns, Nathanael and Robyn Young. "Workshop on Analysis of Trends in the Salvadoran Microfinance Industry: Final Report." Prepared to USAID/El Salvador by Development Alternatives, Inc.

Creevey, Lucy. "Final Evaluation of the Microenterprise Development Activity." Presented to USAID/El Salvador by Weidemann Associates, Inc.

CRS. "Final Report: Microenterprise 2000 Supplemental Grant." Presented to USAID/El Salvador, January 2001.

DAI. "FOMIR Final Report." September 2003, revised May 2004.

"FOMIR Annual Work Plan, November 2003-September 2004."

"FOMIR Annual Work Plan, October 2004-June 2005."

"FOMIR I Information Technology Unit, Final Report." September 2003.

MicroEnfoque. Market newsletter originally published by the FOMIR program. All volumes from March 2001 to present.

"Productive Asset Grant Program Final Report." 2004.

"Programa de Fortalecimiento de las Microfinanzas Rurales." FOMIR II final report. June 2005.

DiLeo, Paul, and Mercedes Cuadra. "Evaluation of ProFund." April 2002.

Deloitte Touche Tohmatsu Emerging Markets, Ltd., and Weideman Associates, Inc. "Evaluation of the Rural Financial Markets Activity." Report for FOMIR. 2002.

Lenaghan, Tom. "Microfinance and the Market for Credit Information in El Salvador." Microenterprise best practices series. Development Alternatives, Inc. March 2001.

Gonzales-Vega, Claudio, and Sergio Navajas. "Innovative Approaches to Rural Lending: Financiera Calpia in El Salvador." Rural Finance Program, OSU. June 2000.

GTZ. "Measuring the Impact of Microfinance: The Case of Financiera Calpia, El Salvador." 2004.

McGill, John. "Helping MFIs Overcome Disasters: Lessons and Strategies for Donors and Donor-funded projects." Development Alternatives, Inc.

USAID. "Statement of Work, Technical Assistance for Strengthening Microfinance Institutions in El Salvador. AMAP Financial Services task order, FOMIR II.

"Broader Access to Financial Markets and Services." Financial Services IQC task order RFP. June 2005.

"Regional Strategy for Central America and Mexico FY 2003-2008, Vol.1: Core Strategy." August 2003."

"Regional Strategy for Central America and Mexico, FY 2003-2008, Vol. 2. July 2004.

"Rural Financial Markets Close Out Report." 2005.

"Annual Portfolio Review, Period October 1, 2004 to September 30, 2005, Strategic Objective, 'Expand Access and Economic Opportunities for Rural Families in Poverty'."

"USAID/El Salvador Country Plan, FY 2004- 2008." April 2004.

www.usaid.gov/sv/ege/egeact2.htm

Philippines

Agabin, Meliza, and Jorge L. Daly. "An Alternative Approach to Rural Financial Intermediation – The Philippine Experience." Chemonics International, Inc., May 1996.

Ananth, Bindu, and Soju Annie George. "Scaling up Micro Financial Services: An Overview of Challenges and Opportunities." Social Initiatives Group, ICICI Bank, August 2003.

Bangko, Kabayan. "Brief History and Profile." April 2005.

Cantilan Bank, Inc. "Sufficient Income and Bigger Savings for Growth: Micro-Finance Loan Product." Undated.

Chemonics International. "Annual Performance of MABS Participating Banks: 1998 through 2004."

"Annual Work Plan, Microenterprise Access to Banking Services in Mindanao (MABS-M) 1998-2003." Contract no. 492-C-00-98-00008-00, years 1998, 1999, 2000, 2003, and 2005, with annexes.

"The MABS Approach: Overview and Program Updates." Presentation to the Umbrella Study Team, April 2005.

"MABS Banks Microfinance Performance Report, Consolidated Performance Data for December 2004."

"MABS Monthly Highlights, December 2004 and January 2005."

"MABS Local Subcontracts, May 2005."

"MABS Participant Banks." Undated.

"Quarterly Performance Monitoring Plan, Microenterprise Access to Banking Services in Mindanao (MABS-M) 1998-2003." Contract No. 492-C-00-98-00008-00.

Consultative Group to Assist the Poor (CGAP). "Key Principles of Microfinance." Undated.

"Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance." December 2004.

De Sousa-Shields, Marc, and Cheryl Frankiewicz, et. al. "Financing Microfinance Institutions: The Context for Transitions to Private Capital." Accelerated Microenterprise Advancement Project microREPORT no. 8, December 2004.

De Sousa-Shields. "Financing Microfinance: Transitions to Private Capital." Workshop proceedings. AMAP microREPORT no. 3, May 2004.

De Torres, Dr. Alfredo. "Cooperative Union and Federation Systems in the Philippines: A Historical Perspective." Presentation. Philippines, Los Banos: University of the Philippines, 2002.

Development Alternatives, Inc. "Microenterprise Access to Banking Services (MABS) Program Evaluation, Final Report to USAID." March 2004.

Ernst, Ulrich, Marina Krivoshiykova, Donald R. Snodgrass, and James Packward Winkler. "Enterprise Growth Initiatives: Strategic Directions and Options." Development Alternatives, Inc., for USAID Bureau for Economic Growth, Agriculture and Trade, July 2004.

Dressen, Robert, Jay Dyer, and Zan Northrip. "Turning Around State-Owned Banks in Underserved Markets, Small Enterprise Development." Vol. 13, no. 4, December 2002.

First Community Cooperative. "Presentation of Operations and Performance." April 2005.

Gutin, John, and Robin Young. "Khan Bank – The Agricultural Bank of Mongolia." AMAP MicroREPORT, January 2005.

International Management Communication Corporation (IMCC). "Credit Policy Improvement Program – TA to the National Credit Council – Quarterly Performance Report, October 1 to December 31, 2004." IMCC, as subcontractor to Development Alternatives, Inc., contract GEG-1-00-02-00027-00.

International Monetary Fund. "Philippines: 2004 Article IV Consultation and Staff Report." IMF country report no. 05/105, March 2005.

Littlefield, Elizabeth, and Richard Rosenberg. "Breaking Down the Walls Between Microfinance and the Formal Financial System." Consultative Group to Assist the Poor (CGAP), June 2004.

Miller, Mary, John Cann, Arelis Gomez, and Mario B. Lamerte. "Microenterprise Access to Banking Services (MABS) Program Evaluation – Final Report." Development Alternatives, Inc., March 2004.

The MixMarket. "Philippines Country Profile." Report as of end of 2003.

Phelps, William J., and Reese Moyers. "Micro Enterprise Access to Banking Services in Mindanao (MABS-M) – Mid Term Evaluation." Prepared by Financial Markets International, Inc., May 2000.

Robinson, Marguerite S. "The Future of the Commercial Microfinance Industry in Asia." Prepared for the Asian Development Bank Regional Conference on Microfinance. Philippines, Manilla: March 2005.

Rural Bankers Association of the Philippines. "Profile of the RBAP." April 2005.

"Rural Banks: The Ideal Partners for Countryside Development." Undated.

Sasuman, Luis. "Rural Financial Institutions: Restructuring and Post Restructure Results – Case Study." World Council of Credit Unions, Inc. (WOCCU), Credit Union Empowerment and Strengthening (CUES) Philippines. Undated.

USAID/Philippines. "Activities in Mindanao." Undated.

"Expanding Microenterprise Lending in the Philippines." December 2004.

"Initiatives and Activities with the Private Sector." Undated.

"Map of Ongoing Activities." March 2005.

"MABS Program Scope of Work- Phase III." Undated.

"Overview – USAID in the Philippines." Undated.

"Request for Proposals, Microenterprise Access to Banking Services in Mindanao." (MABS-M), RFP No. 492-97-011, June 1997.

"Scope of Work for MABS Evaluation." Undated.

"Strategy FY 2005-2009." March 2005.

"USAID in Mindanao." Undated.

Women's World Banking. "Financial Products and Services, Occasional Paper Strategies for Financial Integration: Access to Commercial Debt." July 2004.

World Council of Credit Unions, Inc. "A Technical Guide to Savings Mobilization: Lessons from the Credit Union Experience." Technical guide no. 1, March 2002.

"A Technical Guide to PEARLS: A Performance Monitoring System." Technical guide no. 2, November 2002.

"A Technical Guide to Rural Finance: Exploring Products." Technical guide no. 3, December 2003.

"A Technical Guide to Remittances: The Credit Union Experience." Technical guide no. 4, March 2004.

"A Technical Guide to Mainstreaming – the Credit Union Perspective." WOCCU Technical guide no. 5, December 2004.

Credit Union Empowerment and Strengthening Project (WOCCU/CUES). "A Development Project to Empower Savings and Credit Coops." Presentation. April 2005.

WOCCU/CUES. *CUES News*, July 2004 newsletter.

CUES News, November 2004 newsletter.

"Philippines Project Brief." 2005.

"First Community Cooperative Institutional Profile." February 2005.

"FOCCUS: Finance Organizations Achieving Certified Credit Union Standards." Undated brochure.

World Council of Credit Unions, Philippines Program in Brief, undated.

"Philippines-Depth of Outreach." September 2004.

"Philippines-Financial Outreach Indicators." Undated.

"Philippines-Financial Performance Indicators." September 2004.

Uganda

ACCION International. "Surviving the Crisis: Microfinance in Bolivia, 1999-2002." November 2002.

Anonymous. "Donor Principles for Support to Uganda's Microfinance Industry." January 2002.

Beijuka, John, Peter Mukwana, and Ernest Kaffu. "Use of Financial Services Over Time in Uganda." MicroSave-Africa. Undated.

Carlton, Andy, Hannes Manndorff, Andrew Obara, Walter Reiter, and Elisabeth Rhyne. "Microfinance in Uganda."Austria, Vienna: Commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation, December 2001.

Chemonics International, Inc. "Agricultural Productivity Enhancement Program (APEP)." Undated.

"Compete Uganda! – Uganda's Competitiveness Hub." Issue no. 3, prepared by Strengthening the Competitiveness of Private Enterprise (SCOPE) Project.

"Rural SPEED 2005 Work Plan (February 1, 2005 – September 30, 2005, March 1, 2005.

"Support for Private Enterprise Expansion and Development in Uganda (SPEED), Transforming Ugandan Business." Draft final report, April 2005.

"SPEED Quarterly Reports, 2001-2003."

"SPEED Work Plans, 2001-2003."

Consultative Group to Assist the Poorest (CGAP). "Building Inclusive Financial Systems – Donor Guidelines on Good Practice in Microfinance." December 2004.

"Commercialization and Mission Drift: The Transformation of Microfinance in Latin America." Occasional paper no. 5, January 2001.

"The Rush to Regulate: Legal Frameworks for Microfinance." Occasional paper no. 4, April 2000.

"Uganda Microfinance Sector Effectiveness Review – Compiled Feedback on the Report." December 2004.

Deloitte Touche Tohmatsu Emerging Markets, Ltd. "Evaluation of Support for Private Enterprise Expansion and Development (SPEED) Activity." Contract PCE-I-00-99-00008-00, February 2003.

DFID Financial Sector Deepening Project. "Consolidation Challenge Fund for MFIs in Uganda."

"Lessons from Uganda: Moneylenders."

"Uganda Annual Report 2004."

"Survey of Gaps in Financial Sector Slowing Pro-Poor Finance." Prepared for the 2005 work plan. Undated.

"Deepening: The Monthly eNewsletter of DFID's FSDU Project." No. 3, March 2005.

Duval, Ann. "Donor Collaboration and Transparency: Standardized Donor Reporting in Uganda." CGAP case study no.7 in donor good practices. September 2004.

FINCA. "Village Bank Notes: FINCA Uganda Secures License Double-oh-One." Winter 2005.

Goodwin-Groen, Ruth, Till Bruett, and Alexia Latortue. "Uganda Microfinance Sector Effectiveness Review." CGAP, October 2004.

Hansen, Lene. "Background Briefing Note for Review of USAID-Funded Microenterprise Development Umbrella Programs." Kampala, Uganda: April 2005.

"Comments on the Rural Financial Services Scope of Work." April 2005.

"Comments on the Rural SPEED Draft Work Plan." April 2005.

Hudson, Rob. "An In-Depth Quantitative Assessment of the Ugandan Micro-Finance Environment: A Research Report for MicroSave-Africa." TMS Financial, April 2003.

Jazayeri, Ahmad. "Member-Based Financial Institutions: Lessons from Uganda and Tanzania, 1997-2004."

"Rural Financial Service Associations – the Concept." *Small Enterprise Development*, vol. 7, no. 2. June 1996.

Kaffu, Ernest, and Leonard K. Mutesasira. "Competition Working for Customers: The Evolution of the Uganda MicroFinance Sector, A Longitudinal Study from December 2001 to March 2003." MicroSave-Africa, May 2003.

Kalyango, David. "Bank of Uganda, Uganda's Experience with the Regulatory and Supervisory Framework for Microfinance Institutions, Microfinance Regulation and Supervision Resource Center." (www.cgap.org/regulation), May 2005.

Ledgerwood, Joanna, Deborah Burand, and Gabriela Braun. "The Micro Deposit-Taking Institutions Bill 2002: Summary of Workshops and Information Exchange Events." SPEED-USAID, November 2002.

Ministry of Finance, Planning and Economic Development, Government of Uganda, Matching Grant Facility for Capacity Building. "Microfinance Outreach Plan (MOP) Coordination Unit." Uganda, Kampala: February 2004.

"Strategic Plan for Expanding the Outreach and Capacity of Sustainable Microfinance in Uganda." Uganda, Kampala: October 2003.

Mukwana, Peter, and Grace Sebageni. "An In-Depth Assessment Of The Ugandan Microfinance Market: Qualitative Side Study Report." MicroSave-Africa, August 2003.

Musoke, Christopher. "Trends and Issues in Microfinance – Informal Information Exchange Meeting, April 25, 2005." Prepared by the DFID/FSDU Project.

DFCU. "The New Vision, Announcement of Financial Results for the Year, December 31, 2004." April 2005.

Raditz, Cary Wingfield, Jeanne Downing and H. Wayne Meyer. "Evaluation of the USAID PRESTO Project: Final Report." (with annexes) Prepared by the Barents Group LLC and Weidemann Associates, Inc., June and July 1999.

Robinson, Marguerite S. "The Future of the Commercial Microfinance Industry in Asia." Prepared for the Asian Development Bank Regional Conference on Microfinance. Philippines, Manila: March 2005.

Rosenberg, Richard, and Alexia LaTortue. "Microfinance Donor Coordination in Uganda." May 2000.

de Soussa-Shields, Marc, Cheryl Frankiewiez, et. al. "Financing Microfinance Institutions: The Context for Transitions to Private Capital." AMAP microREPORT no. 8, December 2004.

Support to Feasible Financial Institutions and Capacity-Building Efforts (SUFFICE). "An Overview of the Microfinance Industry in Uganda." Uganda, Kampala: July 2003.

"Banks Partnering with SUFFICE in Bank Guarantee Relationship." Undated.

"Managing Multiple Micro-Loans: the Causes and Effects of Multiple Borrowing Among Microfinance Clients in Uganda." March 2002.

Thompson, Jack. "The USAID SPEED Project's Support for Leasing in Uganda." May 2003.

Uganda Leasing Association. "Lease Link. Economic Growth in Africa: The Role of Leasing." Issue 2. December 2004.

Uganda Securities Exchange. "Quarterly Bulletin, January – March 2005."

"Annual Report 2004."

University of Wisconsin/Madison. "Rethinking Rural Finance: a Synthesis of the Paving the Way Forward." Prepared for Rural Finance Conference, March 2004.

USAID/Bureau of Economic Growth, Agriculture and Trade. "Donor Program Review: Sharing Insights, Lessons and Experience in Rural Finance." June 2003.

USAID/Uganda. "Agriculture's Links to Poverty Trends in Uganda." Economic analysis paper no. 1.1.6. Undated.

"Common Market for Eastern and Southern Africa: Trade Policy." Economic Analysis Paper no. 2.6. Undated.

"COMESA Non-Trade Policy." Economic analysis paper no. 2.7. Undated.

"Factors Affecting Growth and Poverty Reduction." Economic analysis paper no. 1.1.7. Undated.

"Development Credit Authority (DCA) Loan Portfolio Guarantee Program." Project sheet. Undated.

"East African Community Trade Policy." Economic analysis paper no. 2.1. Undated.

"Integrated Strategic Plan for USAID's Program in Uganda, 2002-2007" (vol. I); "Assisting Uganda to Reduce Mass Poverty" (vol. II); "Required Analysis" (vol. III – Informational Annexes). June 2001.

"Investment in Developing Export Agriculture (IDEA)." Project sheet. Undated.

"Productive Resource Investments for Managing the Environment/Western Region (PRIME/WEST)." Undated.

"P.L. 480 Title II – ACDI/VOCA 2002-2006 Development Assistance Program (DAP)." Project sheet. Undated.

"P.L. 480 Title II – Africare 2002-2006 Development Assistance Program (DAP)." Project sheet. Undated.

"P.L. 480 Title II – Catholic Relief Services 2002-2006 Development Assistance Program (DAP)." Project sheet. Undated.

"P.L. 480 Title II – Technoserv 1998-20003 Development Assistance Program (DAP)." project sheet. Undated.

"P.L. 480 Title II – World Vision 2000-20003 Development Assistance Program (DAP)." Project sheet. Undated.

"Report of the Workshop on Rural Financial Services, May 2004." Includes list of participants.

"Response to AMAP Questions." June 2005.

"Rural Financial Services (RFS) Request For Proposals (RFP) 617-04-008." July 2004.

"RFS RFP 617-04-008, Amendment 1." Undated.

"Request for Proposals - Summary Statement of Work for the Uganda Trade Revitalization and Diversification of Exports Activity." Undated.

"Request for Proposals – Support for Private Enterprise Expansion and Development (SPEED)." Prepared for the Financial Services Activity of the SEGIR FS IQC. June 2000.

"Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED)." Project sheet. Undated.

"Strengthening the Competitiveness of Private Enterprise (SCOPE)." Project sheet. Undated.

"Strengthen Micro, Small, Medium and Agricultural Enterprise Finance in Uganda." Statement of work, prepared under the Financial Services Activity of the SEGIR FS IQC. Undated.

"Staffing and Budgets for FY 2004 and FY 2005." May 2005.

"Support for Private Enterprise Expansion and Development (SPEED I)." Project sheet. Undated.

"Support for Private Enterprise Expansion and Development (SPEED II)." Project sheet. Undated

"Uganda: Macroeconomic Analysis Paper." Undated.

"USAID Funding Levels, FY 1979-FY 1999." May 2005.

"Rural Financial Services Workshop Final Report." May 2004.

"Rural Financial Services Workshop: Scope of Work." April 2004.

"World Council of Credit Unions, Savings and Credit Cooperatives Societies Network (WOCCU / SACCO NET)." Project sheet. Undated.

Wright, Graham A.N., and Paul Rippey. "The Competitive Environment in Uganda: Implications for Microfinance Institutions and Their Clients." MicroSave-Africa, September 2003.